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Report to Congressional Requesters

June 2007

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

Many Responsibilities and Investment Policies Set by Congress

GAO-07-611

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Highlights

Highlights of GAO-07-611, a report to congressional requesters

Why GAO Did This Study

The Thrift Savings Plan (TSP), a retirement savings and investment plan for federal workers, held approximately $210 billion in retirement assets for 3.7 million participants, as of February 2007. TSP is managed by the Federal Retirement Thrift Investment Board (FRTIB). In light of questions about TSP oversight, we examined (1) the current structure for overseeing FRTIB, (2) how the statutorily defined fiduciary responsibilities of FRTIB compare to the responsibilities of private plan sponsors and how FRTIB fulfills its responsibilities, (3) how FRTIB's investment policies differ from those of private plan sponsors, and (4) FRTIB's statutory responsibilities to educate plan participants about TSP and other retirement issues and how these responsibilities compare with those of private and state and local government employee plan sponsors.

www.gao.gov/cgi-bin/getrpt?GAO-07-611.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

The Department of Labor (DOL) and Congress oversee FRTIB. In accordance with the law establishing TSP, DOL conducts regular audits to determine the level of compliance with laws and regulations as well as to ensure the efficiency and effectiveness of operations. Congress requires FRTIB to submit its annual budget and other reports, and to undergo an independent financial audit. However, Congress has not held regular FRTIB oversight hearings. Also, DOL does not submit its audit reports directly to Congress, and has not yet been provided with a mechanism to communicate issues of critical concern to Congress.

FRTIB's fiduciary duties are similar to those of fiduciaries of private sector plans. To act prudently and solely in the interest of plan participants, FRTIB has implemented policies and practices in several of the areas mentioned in DOL's guidance for private sector plans. However, unlike the law governing private plans, the Federal Employees' Retirement System Act of 1986 (FERSA)—the law that governs the administration of TSP—contains special liability protections for Board members and the Executive Director.

FRTIB has less discretion than private sector plan sponsors in setting investment policy because the investment options available to TSP participants are largely outlined in law, whereas private sector plan sponsors are responsible for choosing which investment options to offer participants. TSP's authorizing statute specifies the number and types of funds available to participants, and requires that some of these funds track indexes, which are broad, diversified market indicators. FRTIB chooses the particular indexes for the funds to track, reviews the investment options, and suggests additional funds. Changing TSP investment options requires legislation.

FRTIB and the Office of Personnel Management (OPM) are responsible for educating participants about TSP and general retirement issues, while the private and state and local government employee plan sponsors that we interviewed are governed by different rules. By statute, FRTIB is charged with developing educational materials for participants about TSP-specific issues. FRTIB also assists OPM, which is required to provide general retirement education to federal employees and train retirement counselors at federal agencies to provide information to federal employees. Private plan sponsors as well as the state and local government employee plan sponsors that we spoke with are responsible for educating participants about their plans, but often supply general retirement information as well.

As the size and complexity of TSP have grown, an appropriate level of oversight of FRTIB is critical to ensuring that federal workers' retirement savings are properly managed. GAO previously recommended that Congress consider amending FERSA to require DOL to establish a formal process by which the Secretary of Labor can report to Congress issues of critical concern about actions of the Executive Director and Board members.

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Abbreviations

DOL	Department of Labor
EBSA	Employee Benefits Security Administration
ERISA	Employee Retirement Income Security Act of 1974
FERS	Federal Employees' Retirement System
FERSA	Federal Employees' Retirement System Act of 1986
FRTIB	Federal Retirement Thrift Investment Board
FTCA	Federal Tort Claims Act
OPM	Office of Personnel Management
PSCA	Profit Sharing/401(k) Council of America
TSP	Thrift Savings Plan

GAO

Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

June 21, 2007

The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Tom Davis
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

As of February 2007, the Thrift Savings Plan (TSP), a retirement savings and investment plan for federal workers, held approximately $210 billion in retirement assets for 3.7 million current and former federal employees. Similar to private sector 401(k) plans, TSP allows employees to save for retirement by diverting a portion of their pretax income into investment accounts that can grow tax-free until withdrawn in retirement. In April 2006, the House Committee on Oversight and Government Reform held hearings on TSP issues, resulting in concerns being raised about the adequacy of the current oversight structure of TSP. The Federal Retirement Thrift Investment Board (FRTIB) is responsible for day-to-day operations of TSP, and the Department of Labor (DOL) has some oversight responsibilities, primarily through conducting audits of TSP's operations. Subsequently, you asked us to examine (1) the current structure for overseeing FRTIB, (2) how the statutorily defined fiduciary[1] responsibilities of FRTIB compare to the responsibilities of private plan sponsors and how FRTIB fulfills its responsibilities, (3) how FRTIB's investment policies differ from those of private plan sponsors, and (4) FRTIB's statutory responsibilities to educate plan participants about TSP and other retirement issues and how these responsibilities compare with those of private and state and local government employee plan sponsors.[2]

[1]A plan fiduciary includes a person who has discretionary control or authority over the management or administration of a retirement plan, including the plan's assets.

[2]Private and public sector employers may sponsor pension plans for their employees. A plan sponsor may include an employer, employee organization, or both. Generally, the plan sponsor has ultimate responsibility for the plan.

To address our objectives, we analyzed provisions of the Federal Employees' Retirement System Act of 1986 (FERSA),[3] which governs the administration of TSP, and the Employee Retirement Income Security Act of 1974 (ERISA),[4] which governs the administration of pension plans in the private sector. To examine the current structure for overseeing FRTIB, as well as our other objectives, we interviewed DOL officials, and analyzed various documents from both DOL and FRTIB, including DOL regulations, audit manuals, and reports. Additionally, to determine how FRTIB's statutorily defined fiduciary responsibilities compare to the responsibilities of private plan sponsors, and how FRTIB fulfills its responsibilities, as well as what FRTIB's investment policies are and how its policies differ from those of private plan sponsors, we interviewed representatives of industry associations and reviewed related documents, including FRTIB memos, policies, Board meeting minutes, and correspondences, and DOL's guidance to private plan sponsors. To determine FRTIB's responsibilities for educating plan participants about TSP and other retirement issues, we examined information from TSP's Web site, spoke with Office of Personnel Management (OPM) officials, and reviewed FRTIB documents. To compare FRTIB's education responsibilities with those of other plan sponsors, we interviewed representatives of industry associations, and officials representing sponsors of five defined contribution plans—four state and local government employee pension plans and one private plan.[5] We selected plan sponsors based on plan assets, plan type, and absence of fiduciary malfeasance. Appendix I describes the selection of plan sponsors in greater detail. We also reviewed a 2005 industry survey to obtain additional information about how private plan sponsors educate their

[3]5 U.S.C. §§ 8401-8479.

[4]29 U.S.C. §§ 1001-1461.

[5]Seven private pension plans were contacted, but only one agreed to speak with GAO staff.

participants.[6] We conducted our work between August 2006 and June 2007 in accordance with generally accepted government auditing standards.[7]

Results in Brief

DOL and Congress both play roles in overseeing FRTIB. Under TSP's authorizing statute, DOL is charged with establishing and conducting an audit program of FRTIB to determine the level of compliance with requirements relating to fiduciary[8] responsibilities and other transactions.[9] According to DOL officials, the audit program covers all significant aspects of TSP operations, including FRTIB policy formulation and administration as well as functions performed by service providers, like record keeping. While FRTIB and its service providers are not required to implement DOL's audit recommendations, they have generally implemented a high percentage of the recommendations. In addition to oversight from DOL, FRTIB—like other federal agencies—is subject to congressional oversight. While Congress exercises its legislative oversight authority by holding occasional hearings and requiring FRTIB to submit routine reports, oversight has not involved regular hearings. Hearings on FRTIB have typically been in response to challenges with TSP or proposed legislative changes. Also, DOL does not submit its audit reports directly to Congress, nor is there any other specific mechanism in place through which DOL reports areas of critical concern to Congress.

[6]The survey was conducted by the Profit Sharing/401(k) Council of America (PSCA). PSCA's survey results are based on responses from 1,106 plan sponsors that have profit-sharing plans, 401(k) plans, or a combination of both and represent 1 to 5,000-plus employees. The survey was mailed or faxed to respondents and conducted from March 2006 to May 2006. The survey provides a snapshot as of the end of 2005. The survey response rate was 21 percent. PSCA is a national, nonprofit association of 1,200 companies and their 6 million plan participants. According to PSCA, it represents the interests of its members to federal policy makers and offers assistance with profit sharing and 401(k) plan design, administration, investment, compliance, and communication.

[7]For information about FRTIB's administrative expenses see GAO, *Federal Retirement Thrift Investment Board: Due Diligence over Administrative Expenses Should Continue and Be Broadened*, GAO-07-541 (Washington, D.C.: May 14, 2007).

[8]TSP fiduciaries include the five Board members, the Executive Director, any person who has or exercises discretionary authority or control over the management or disposition of TSP assets, and anyone who would be considered a fiduciary under ERISA. 5 U.S.C. § 8477(a)(3). Under ERISA, a fiduciary is generally anyone to the extent he or she exercises any discretionary authority or control over plan management or any authority or control over the management or disposition of plan assets, renders investment advice respecting plan money or property for a fee or other compensation, or has discretionary authority or responsibility for plan administration. 29 U.S.C. § 1002(21)(a).

[9]5 U.S.C. § 8477(g)(1).

FRTIB's fiduciary duties are similar to those of fiduciaries of private sector plans. Both FERSA and ERISA, the statute that governs private sector pension plans, require fiduciaries to act prudently and solely in the interest of plan participants and beneficiaries. To fulfill its fiduciary duties, FRTIB has implemented policies and practices in several of the areas mentioned in DOL's guidance for private sector plans. For example, FRTIB selects and closely monitors service provider companies, which carry out many of TSP's operations, including managing all but one of the investment funds. However, unlike private plan fiduciaries, Board members and the Executive Director are not subject to civil actions by DOL for the breach of their duties or for engaging in certain transactions. DOL is authorized to bring civil actions against fiduciaries of private plans and other TSP fiduciaries, such as the company providing investment management services. However, a 1988 amendment to FERSA exempted Board members and the Executive Director from DOL's authority to bring such actions.

FRTIB has less discretion than private sector plan sponsors in setting investment policy; the investment options available to TSP participants are largely outlined in law, whereas private sector plan sponsors are responsible for choosing investment options to offer participants. According to DOL, an important part of the fiduciary duties of acting prudently and solely in participants' interest involves selecting investment options. For TSP, FERSA specifies the number and types of funds, such as one that invests in Treasury securities or in stocks of large U.S. companies, and requires that some of these funds track indexes, which are broad, diversified market indicators like the Standard & Poor's 500. FRTIB, then, may select the particular indexes for the funds to follow as well as review the investment options and suggest additional funds. Any change in TSP options, however, requires legislation. For example, in 1995, the Board submitted a legislative proposal to add funds for international stocks and for stocks in small and medium-sized U.S. companies, and Congress amended FERSA the next year. Unlike FRTIB, private plan sponsors have the authority to choose which investment options to offer plan participants. Although ERISA and its regulations require that they offer diversified options, private plan sponsors can determine, among other things, the number and type of funds in their plans, and whether to include funds that track a specific market index or those that specialize in one sector, like telecommunications.

FRTIB and OPM are responsible for educating participants about TSP and general retirement issues; private and state and local government employee pension plan sponsors we spoke with, while governed by different rules, are responsible for educating participants specifically about their plans, but often choose to provide employees with additional retirement information. Under FERSA, FRTIB is responsible for developing educational materials for participants about TSP-specific issues, such as descriptions of investment options.[10] For example, FRTIB provides information about TSP fund options and their past rates of return on its Web site, automated call line, and in written materials. FRTIB also assists OPM, which is required to provide general retirement education to federal employees and ensure that retirement counselors at federal agencies are trained to provide workers information on topics such as making contributions or withdrawals from TSP.[11] Private sector plan sponsors under ERISA are required to provide information to participants on the investment options in their plan, but are not required to provide general retirement education information, although many plan sponsors do. For example, the private sector plan sponsor we spoke with contracts with a service provider to give employees one-on-one financial and investment counseling. State and local government employee pension plan sponsors' responsibilities vary based on the rules governing the plan, but the four plans we studied educated participants about not only plan-specific issues, but other matters. For example, the public plans gave participants tools to calculate how much they will need to save for retirement.

Background

The Federal Employees' Retirement System Act of 1986 (FERSA) created TSP to provide options for retirement planning and encourage personal retirement savings among the federal workforce. Most federal workers are allowed to participate in TSP, which is available to federal and postal employees, including members of Congress and congressional employees and members of the uniformed services, and members of the judicial branch.[12]

[10] 5 U.S.C. § 8439(c).

[11] 5 U.S.C. § 8350 and § 8350 note.

[12] FERSA created the Federal Employees' Retirement System (FERS). As part of FERS, TSP is part of the current three-part retirement system for federal employees—Social Security benefits, the basic benefit plan, and TSP. OPM trains retirement counselors about each part of the plan. Prior to FERS, most federal employees were covered by the Civil Service Retirement System.

As of February 2007, TSP held approximately $210 billion in retirement assets for 3.7 million current and former federal employees and their families. Participants may allocate their contributions and any associated earnings among five investment fund options: the G Fund, F Fund, C Fund, S Fund, and I Fund.[13] Since August 2005, TSP participants also may choose one of five Lifecycle funds, which diversify participant accounts among the G, F, C, S, and I Funds, using investment mixes that are tailored to different time horizons for retirement and withdrawal. The investment mix of each Lifecycle fund adjusts quarterly to more conservative investments as the participant nears retirement.

Pension plans are classified either as defined benefit or as defined contribution plans. Defined benefit plans promise to provide, generally, a fixed level of monthly retirement income that is based on salary, years of service, and age at retirement regardless of how the plan's investments perform. In contrast, benefits from defined contribution plans are based on the contributions to and the performance of the investments in individual accounts, which may fluctuate in value. Examples of defined contribution plans include 401(k) plans,[14] employee stock ownership plans, and profit-sharing plans.

As with other defined contribution plans, TSP is structured to allow eligible federal employees to contribute a fixed percentage of their annual base pay or a flat amount, subject to Internal Revenue Service limits, into an individual tax-deferred account. Additionally, FERS participants are eligible for automatic 1 percent contributions and limited matching

[13]The G Fund, managed by FRTIB, is composed of short-term nonmarketable government securities issued exclusively for the Thrift Savings Fund. The remaining four funds are managed by Barclays Global Investors and are structured to track large index funds, which are debt or equity portfolios composed of bonds or stocks of a large number of different companies. The first of these funds, the Fixed Income Index Investment Fund, or F Fund, is a bond market fund primarily invested in the Barclays U.S. Debt Index designed to track the Lehman Brothers U.S. Aggregate Index. The second fund, the C Fund, is TSP's large-company stock fund. It is invested in the Barclays Equity Index Fund and tracks the Standard & Poor's 500 Index. The Small Capitalization Stock Index Investment Fund, or S Fund, is invested in Barclays Extended Market Index Fund and is managed to track the Dow Jones Wilshire 4500 Completion Index. The I Fund is the TSP's international stock index fund and is invested in Barclays EAFE Index Fund (Europe, Australasia, and Far East) and holds shares of major companies and industries in the European, Australian, and Asian stock markets.

[14]Named after section 401(k) of the Internal Revenue Code, 401(k) plans allow workers to save for retirement by diverting a portion of their pretax income into an investment account that can grow tax-free until withdrawn in retirement. 26 U.S.C. § 401(k).

contributions from the employing federal agency. According to FRTIB, TSP provides federal (and in most cases, state) income tax deferral on contributions and their related earnings, similar to those offered by many private sector 401(k)-type pension plans. Participants can manage their accounts and conduct a variety of transactions similar to those available to 401(k) participants, such as reallocating contributions, borrowing from the account, making withdrawals, or purchasing annuities.

Administration of TSP falls under the purview of the Federal Retirement Thrift Investment Board, an agency established by Congress under FERSA. FRTIB is composed of five Board members appointed by the President, with the advice and consent of the Senate.[15] They are authorized to appoint the Executive Director, who hires additional personnel,[16] and an Employee Thrift Advisory Council. The Employee Thrift Advisory Council is a 15-member council that provides advice to the Board and the Executive Director on the investment policies and administration of the TSP.[17] The Board is responsible for establishing policies for the investment and management of the TSP, as well as administration of the plan. The Executive Director and staff of FRTIB are responsible for implementing the Board's policies and managing the day-to-day operations of TSP, prescribing regulations to administer FERSA, and other duties. The Board members and the Executive Director serve as plan fiduciaries.

DOL and Congress Oversee FRTIB, but Oversight Has Not Included Regular Hearings

The Department of Labor and Congress both play roles in overseeing FRTIB. As we have previously reported, DOL is charged with conducting regular compliance audits to determine if the Board is fulfilling its fiduciary duties and properly safeguarding TSP participants' assets.[18] Congress created FRTIB and has the ability to change the structure for overseeing FRTIB. As with every federal agency, Congress may exercise oversight of FRTIB. Currently, Congress requires FRTIB to submit its budget and other reports regularly, but it has not typically held hearings unless a challenge has arisen or there has been a proposed change to legislation. In addition, DOL officials do not have in place a specific

[15] 5 U.S.C. § 8472(b) and (c).

[16] 5 U.S.C. § 8474.

[17] 5 U.S.C. § 8473.

[18] GAO, *Federal Pensions: DOL Oversight and Thrift Savings Plan Accountability*, GAO-03-400 (Washington, DC: Apr. 23, 2003).

mechanism for sharing their audit program findings or other issues of concern with Congress.

DOL Oversees FRTIB through Regular Audits

DOL's oversight of FRTIB is based on a FERSA requirement that the Secretary of Labor establish an audit program and conduct audits of FRTIB and its operations.[19] DOL compliance audits are designed to determine whether FRTIB is complying with FERSA and applicable laws and regulations. This includes whether TSP fiduciaries are acquiring, protecting, and using plan resources prudently, efficiently, and solely in the interest of participants and beneficiaries. The DOL Employee Benefits Security Administration's (EBSA)[20] Office of the Chief Accountant has administered the audit program since its inception in fiscal year 1988. According to DOL officials, DOL's audit program reviews all significant activities of FRTIB, including FRTIB's policy formulation and administration, record keeping, and other functions handled by service providers under contract, and functions of federal agencies related to contributions and employee participation programs. The audits include on-site reviews of TSP's principal service providers. Because service providers carry out many day-to-day operations of TSP, from record keeping to investment management, audits are primarily conducted on TSP's service providers. DOL officials have developed an audit manual that includes detailed audit guides, but a firm carries out the audits under contract with DOL. DOL officials said that their ongoing audit presence for TSP is greater than its presence for most of the private plans it oversees, which numbered about 730,000 in 2002.

According to DOL, each year, DOL develops a strategic plan that identifies how many and which functions it could audit based on risk and funding. For example, due to FRTIB's increased use of private contractors to provide call center and other plan services formerly provided by the U.S. Department of Agriculture's National Finance Center, two of DOL's five audits in fiscal year 2006 looked at particular operations of newer

[19] 5 U.S.C. § 8477(g). Specifically, FERSA directs the Secretary of Labor to establish a program to carry out audits to determine the level of compliance with the act's fiduciary standards and prohibited transactions. The Secretary may perform the audit, contract with a qualified non-government organization, or may conduct the audit in cooperation with the Comptroller General of the United States. According to DOL, the department has always elected to contract with a reputable accounting firm.

[20] EBSA is also responsible for enforcing provisions of ERISA, which governs private pension plans.

providers, including certain internal controls. DOL officials also said that the number of audits in a given year is based on the level of funding allocated to the audit program. Fiscal year 2006 funding for the contract audits was $630,000 and covered five audits.[21]

DOL exercises its authority over FRTIB by making recommendations for improving operations based on audit findings. DOL officials and the contract auditor meet with the Board members at least once a year to highlight significant issues from audits and to present the department's future compliance audit schedule. DOL's recommendations to FRTIB and its service providers generally address compliance with FERSA and FRTIB policies, significant weaknesses in internal controls, or areas where FRTIB could improve the efficiency and effectiveness of its operations. For example, during its fiscal year 2005 audit cycle, DOL's contractor audited one of FRTIB's customer call centers, which is operated by a contractor. The audit report included recommendations for FRTIB to implement and enforce policies for information security, designated as a fundamental internal control by DOL, at the contractor's sites; establish additional performance measures; and implement consistent monitoring of call volume at the two call centers. As of September 2006, DOL considered the first recommendation partially implemented and the other two recommendations implemented. DOL cannot compel FRTIB or its service providers to implement its audit recommendations. However, FRTIB generally had implemented a high percentage of DOL's audit recommendations.[22] According to DOL and FRTIB officials, this voluntary implementation of audit recommendations has worked well for them because DOL and FRTIB have a longstanding and positive working relationship.

[21]If additional funds become available, DOL officials said that the contract auditors can perform more audits. For example, when increased funding became available for fiscal year 2002 audits, DOL reviewed the U.S. Treasury's calculation of the interest rate for the specially issued Treasury securities held in the G Fund. While not all plan activities are addressed every year, audit officials noted that the audit program covers most activities over an approximately 3-year cycle.

[22]In 2003, we reported that FRTIB implements approximately 95 percent of DOL recommendations. GAO-03-400.

Congress' Oversight of FRTIB Has Not Involved Regular Hearings

Congress has not required FRTIB or DOL to testify regularly before Congress on TSP operations, although it does receive routine reports from FRTIB. As with other federal agencies, Congress may exercise oversight of FRTIB by investigating agency operations, holding hearings, issuing subpoenas, and requiring the agency to submit performance or financial reports. Congressional committees have typically held hearings on TSP when a challenge has arisen or when there was a proposed change to legislation. For example, FRTIB officials were asked to testify in response to customer service issues with TSP in 2003 and in response to abusive trading practices in the private sector in 2004. In the 20 years since TSP has been in existence, FRTIB estimates it has been called to testify approximately a dozen times. Most recently, Board members and the Executive Director provided testimony in 2005 and 2006 about adding a new fund to TSP's investment options. According to DOL officials, Congress does not require DOL to meet with committee staff or testify about TSP or its audit findings on a regular basis. DOL has testified at least three times on its audit program — in 1994, 2003, and 2004.

Congress requires FRTIB to submit its budget and to have an independent financial audit each year, performed under contract by a public accounting firm. FRTIB also provides a list of each audit report, including DOL's compliance audits, and summaries of any particularly significant findings, to Congress each year, as required by the Inspector General Act of 1978.[23] The 2006 summary contained little information about audit recommendations. DOL is not required to submit its audit reports directly to Congress, and Congress has not asked DOL to share its audit findings on a regular basis through hearings or meetings with committee staff. Consequently, Congress may be unaware of concerns DOL may have. In a 2003 report, we noted that there have been times when DOL has had issues of concern with FRTIB outside of its audit findings. We recommended that Congress consider amending FERSA to require DOL to establish a formal process by which the Secretary of Labor can report to Congress areas of critical concern about the actions of the Executive Director and Board members, but no changes have yet been made.[24]

[23] 5 U.S.C. App. 3, § 8G(h)(2)(B).

[24] See GAO-03-400.

TSP's Fiduciaries Have Similar Duties to Those of Private Plan Fiduciaries, but TSP Board Members and the Executive Director Have Special Liability Protections

FRTIB's fiduciary duties are similar to those of private sector plan fiduciaries, and FRTIB has adopted various policies and practices to fulfill these responsibilities, but unlike private plan fiduciaries, Board members and the Executive Director have special liability protections. Both FERSA and ERISA require fiduciaries to act prudently and solely in the interest of plan participants and beneficiaries. However, unlike ERISA, FERSA does not authorize DOL to bring civil action against Board members or the Executive Director for the breach of their duty, whereas DOL can take such actions against fiduciaries of private plans and other TSP fiduciaries. Congress amended FERSA to provide special liability protections for the Board members and the Executive Director, given the potential assets of TSP and concerns about the availability of fiduciary insurance.

FRTIB Fiduciary Duties Are Similar to Private Plan Fiduciary Duties, and FRTIB Has Adopted Policies and Practices to Fulfill Its Duties

FRTIB and private plan fiduciaries have similar fiduciary duties. TSP's authorizing statute, FERSA, and ERISA set the overarching requirements for fiduciaries to act prudently and solely in the interest of plan participants and beneficiaries.[25] That is, fiduciaries must exercise an appropriate level of care and diligence given the scope of the plan and act for the exclusive benefit of plan participants and beneficiaries, rather than for their own or another party's gain. In addition, FERSA and ERISA specifically prohibit fiduciaries from engaging in certain transactions that that could raise questions about their ability to fulfill their duties, unless certain safeguards are met or waivers are granted by DOL.[26] For TSP, the statute specifically lists Board members, the Executive Director, and any person who has or exercises discretionary authority or control over the management or disposition of TSP assets as fiduciaries.[27]

FRTIB has adopted a range of policies and practices that are similar to those that private plans should follow to carry out these broad duties. DOL has issued guidance for private plans describing important policies and practices to fulfill fiduciary responsibilities. While the guidance is not specifically designed for TSP, FRTIB has implemented policies and

[25] 5 U.S.C. § 8477(b) and 29 U.S.C. § 1104(a). Additional responsibilities of fiduciaries required by both statutes include diversifying plan investments and paying only reasonable plan expenses.

[26] 5 U.S.C. § 8477(c) and 29 U.S.C. §§ 1106 and 1108.

[27] 5 U.S.C. § 8477(a)(3).

practices for several of the areas in DOL's guidance.[28] For example, FRTIB has policies and practices for selecting and monitoring service providers, as well as measuring investment performance. Because private service providers perform many of TSP's operations, including record keeping for participant accounts and investment management of all funds but one, these areas are important for acting prudently and solely in the interest of participants and beneficiaries. Specifically:

- FRTIB generally uses a competitive process in order to select qualified service providers at a reasonable cost. According to FRTIB, contracts for major activities undergo review and competition at least every 5 years. While we did not review its procurement documentation, DOL reviews the selection and monitoring of service providers as part of its compliance audit program.[29]

- FRTIB noted that it uses several approaches to monitor service providers. FRTIB has included performance measures in certain service providers' contracts. Also, since 2004, FRTIB has reviewed quarterly financial reports for most of its major private providers, including financial statements, credit scores, and overall viability.[30] FRTIB further noted that it monitors providers through daily contact with them, periodic on-site visits, and reports from the provider, such as monthly and annual reports from the annuity vendor.

- FRTIB also reviews its performance measures monthly, including the investment performance of each fund. The company providing investment management services must provide monthly reports to FRTIB showing how closely each option is tracking its underlying index. A measure of the difference between the performance of the TSP fund and the underlying index is known as the "tracking error," and by contract, the investment manager must report the amount and reasons for the error. Because the investment manager is allocated fiduciary responsibility by contract, given the manager's control of plan assets, this measurement of performance is essential for both FRTIB

[28]We recently recommended benchmarking cost and performance of FRTIB's individual activities against other entities or standards. See GAO-07-541.

[29]DOL's most recently completed audit of FRTIB's procurement and selection of providers was published in 2003; it found that the procurement practices and controls complied with FERSA's provisions about fiduciary responsibility and prohibited transactions and contained no recommendations.

[30]The annuity vendor was not included in the quarterly financial reviews until April 2007.

and the investment manager to act prudently and ensure that the investment manager is not trading needlessly or for self-gain.[31]

DOL Can Take Civil Action against Private Plan Fiduciaries but Cannot Do So against TSP Board Members and the Executive Director

The Secretary of Labor can take civil action against private plan fiduciaries. Under ERISA, DOL is allowed to seek remedies if fiduciaries of private plans do not fulfill their fiduciary duties, including using litigation when necessary.[32] According to DOL, its primary goal in litigating a case is to ensure that a plan's assets, and therefore its participants and beneficiaries, are protected. For example, DOL has brought legal actions or filed briefs against private plan fiduciaries for investing imprudently in company stock, not investing exclusively for participants' benefit, and failing to monitor appointed fiduciaries.

DOL cannot bring civil actions against Board members or the Executive Director for breaching their plan duties or engaging in prohibited transactions. FERSA allows DOL to bring civil actions against any fiduciary, such as the investment manager, other than a Board member or the Executive Director. While DOL was initially authorized under FERSA to bring civil actions against any TSP fiduciary,[33] a 1988 amendment established an exception from such actions for Board members and the Executive Director.[34] The 1988 amendment was passed, in part, in response to FRTIB's concerns about obtaining fiduciary insurance. According to the then-Executive Director, it would be difficult to buy adequate insurance for these TSP fiduciaries, as FRTIB officials expected TSP to become the largest plan of its kind in the country.[35] Congress took this action in the face of concerns that, without protection, Board members would resign and that they would be hard to replace.

With regard to plan participants' recourse, participants can take civil action against private plan fiduciaries and all FRTIB fiduciaries, including

[31]In 2006, DOL issued its most recent audit of the TSP investment manager. The audit contained no recommendations and found appropriate investment management operations, including compliance with provisions about transactions prohibited by FERSA.

[32]29 U.S.C. § 1132.

[33]Pub. L. No. 99-335, § 101(a), 100 Stat. 514, 582.

[34]Pub. L. No. 100-238, § 133(a), 101 Stat. 1744, 1760-62.

[35]Currently, TSP holds the most assets of any defined contribution plan in the United States.

Board members and the Executive Director.[36] Under ERISA, available remedies include awards for plan losses through monetary damages and restoring any profits made from a fiduciary's improper use of plan assets.[37] Fiduciaries of private plans may guard against the legal risks of personal liability by having fiduciary liability insurance, which the fiduciary, the plan, or the employer may purchase.[38] Fiduciary liability insurance provides reimbursement for costs related to legal actions for breach of their fiduciary responsibilities, including the costs of defending and settling actions or awards of monetary damages. DOL officials said that although fiduciaries of private pension plans may have insurance to largely insulate them from the personal risks associated with their personal liability as fiduciaries, they still face financial risks in certain circumstances due to policy limits or exclusions. For example, fiduciary liability insurance often includes coverage exceptions for intentional harm, criminal acts, or self-dealing.

Similarly, under FERSA, TSP participants or beneficiaries may bring civil actions against Board members or the Executive Director, as well as other TSP fiduciaries, for breaching their plan duties or engaging in prohibited transactions. The 1988 amendment provided that any such claims against a Board member or the Executive Director will be defended by the Attorney General of the United States and, if he certifies that the Board member or Executive Director was acting as a TSP fiduciary, deemed claims under the Federal Tort Claims Act (FTCA).[39] As a result, rather than any monetary relief awarded in such cases being paid personally by any Board member or Executive Director who may commit a breach (or through applicable fiduciary liability insurance), it would be paid out of the

[36]Under ERISA and FERSA, participants can bring civil actions to, among other things, enjoin any fiduciary from acts or practices that will constitute a fiduciary breach.

[37]These remedies are also available to DOL when taking civil action against private plan fiduciaries.

[38]29 U.S.C. § 1110. If the plan purchases fiduciary liability insurance, however, it must provide for recourse by the insurer against any breaching fiduciaries. Both ERISA and FERSA require the purchase of another financial instrument, fidelity bonds, which protect the plan against dishonest acts like fraud. 29 U.S.C. § 1112 and 5 U.S.C. § 8478.

[39]5 U.S.C. § 8477(e)(4)(B) and (C).The FTCA waives sovereign immunity to permit parties injured by tortuous acts of the federal government or its employees to bring legal claims for damages. 28 U.S.C. §§ 1346 and 2671-2680.

Judgment Fund established to pay claims under the FTCA.[40] According to DOL officials, treating claims against a Board member or the Executive Director in this way provides TSP participants with a greater ability to obtain monetary relief than that available to participants in other pension plans. In addition, DOL officials told us that without the special liability protections, DOL could be in the unusual position of suing FRTIB—another federal entity—and receiving assistance with prosecutions from the Department of Justice, which is also responsible for defending Board members or the Executive Director.

TSP has been relatively free from any allegations that TSP fiduciaries have breached their fiduciary duties or engaged in prohibited transactions. DOL and FRTIB officials were aware of only one civil claim against the Board, which is currently pending in federal district court.[41]

TSP Fiduciaries Have Limited Discretion over Investment Policy Compared to Fiduciaries of Private Plans

The Board has less discretion than private sector plan sponsors in setting investment policy because the investment options available to TSP participants are largely outlined in law, whereas private sector plan sponsors are responsible for choosing which investment options to offer participants. FRTIB may select the particular indexes for the funds to follow as well as review the investment options and suggest additional funds. However, Congress must amend FERSA to approve a change in TSP investment options offered to participants.

FERSA Prescribes TSP Investment Options

FRTIB has limited discretion in setting investment policy because FERSA largely sets the investment options available to TSP participants. DOL and FRTIB officials noted that FERSA serves as TSP's overall investment policy. FERSA states that FRTIB shall establish a government securities investment fund, fixed income investment fund, a common stock index investment fund, a small capitalization stock index investment fund, and

[40] 31 U.S.C. § 1304. In 1987, GAO determined that the Judgment Fund was available to pay tort claims against FRTIB that did not involve losses from the TSP or the payment of benefits. 67 Comp. Gen. 142 (Dec. 15, 1987).

[41] That case was brought by the founding Executive Director and a former Board member, who also served later as Executive Director. It involves allegations regarding personnel changes made when new Board members were appointed in 2002 and has resulted as yet in only one reported decision, which addresses only a collateral procedural issue. *Cavanaugh v. Saul*, 233 F.R.D. 21 (D.D.C. 2005).

an international stock index investment fund.[42] For the index funds, FERSA states that the Board shall invest in a portfolio designed to replicate the performance of a commonly recognized index for that fund. For the government securities investment fund, FERSA states that the Secretary of the Treasury is authorized to issue special interest-bearing obligations of the United States for the purchase by TSP. FERSA has other investment policy provisions, such as who can exercise voting rights associated with the ownership of stocks held by TSP.[43]

FRTIB has developed individual policies for each fund. These policies, which FRTIB reaffirms quarterly, provide the rationale for selecting the fund's investments. Factors influencing the policies include the level of risk and return, low costs, and the legislative history of FERSA. A consultant to FRTIB reported in January 2006 that the indexes that FRTIB selected were appropriate and changes to certain indexes would not be cost-effective. Table 1 shows FERSA requirements and FRTIB's policies for each fund.

Table 1: FERSA and FRTIB Investment Policies for Each TSP Fund

Fund	FERSA requires the Fund to be invested in:	FRTIB policies call for investing the Fund in:
G Fund	Treasury securities specially issued to TSP with a maturity determined by the Executive Director that provide the generally higher interest rates of securities with a term of at least 4 years	Short-term securities (that mature in 1 to 4 days)
F Fund	Fixed-income securities	An index including bonds and asset-backed securities to track the Lehman Brothers U.S. Aggregate Index
C Fund	A portfolio that tracks a broad index representing the U.S. stock market	An index of stocks of large to medium-sized companies to track the Standard & Poor's 500 Index
S Fund	A portfolio that tracks a broad index representing U.S. stocks not included in the C Fund	An index of stocks in small and medium-sized companies not represented in the Standard & Poor's 500 to track the Dow Jones Wilshire 4500 Completion Index
I Fund	A portfolio that tracks a broad index representing international stock markets outside of the United States	An index of the stock markets of the developed world outside of the United States and Canada to track the Morgan Stanley Capital International Europe, Australasia, and Far East Index

Source: GAO analysis.

[42] 5 U.S.C. § 8438.

[43] 5 U.S.C. § 8438(f).

In the past, FRTIB has periodically conducted a major review of its investment policy and suggested additional funds for TSP to Congress besides the initial G, F, and C Funds. FRTIB's process for reviewing and suggesting additional funds has included investment analysis, consideration of industry practices, and communication with Congress and the Employee Thrift Advisory Council, which represents participants. For example, in the early 1990s, FRTIB analyzed possible funds to add to the lineup of options for participants to invest in, based on factors like diversification, risk and return, cost, and administrative issues. It submitted a legislative proposal in 1995 to add funds for international stocks (the I Fund) and for stocks in small and medium-sized U.S. companies (the S Fund), and Congress amended FERSA in 1996 accordingly.[44] In 2005, FRTIB introduced Lifecycle funds without an amendment to FERSA because it determined that the Lifecycle funds are combinations of the five existing funds tailored to different time horizons for withdrawal. FRTIB developed these funds partly based on its analysis of inefficient participant behavior whereby participants were not periodically shifting, or rebalancing, their investment portfolio or diversifying their balances among the five funds, which the Lifecycle funds would do automatically for the participant. In 2005, given congressional interest in having FRTIB study the desirability of adding new funds, FRTIB hired an outside consultant to analyze the existing TSP options, who recommended in 2006 that FRTIB not add any additional funds to the plan. According to FRTIB, having relatively few TSP options based on broad-based indexes encourages participation and limits costs.

Private Plan Sponsors Have Greater Discretion to Select Investment Options

Private plans under ERISA have considerable latitude in selecting investment options for their plans. According to DOL, an important part of the fiduciary duties of acting prudently and solely in participants' interest involves selecting investment options. ERISA requires plan fiduciaries to use prudence in selecting and monitoring funds for participants, and to offer diversified funds. Within these parameters, private plans can offer a wide array of options for participants. Unlike TSP, private plans can decide, among other things, the number and types of funds, whether to include funds that specialize in one sector, like telecommunications, or those that track a specific market index. Besides funds tracking a specific market index, which are one kind of passively managed funds, private

[44]Thrift Savings Investment Funds Act of 1996, Pub. L. No. 104-208, tit. I, § 102, 110 Stat. 3009, 3009-372—3009-373.

plans can offer actively managed options, in which the investment manager selects particular investments trying to obtain higher than average returns. Private plan sponsors also may offer employer stock.[45] Further, private plans can also offer features like a self-directed brokerage option, which allows participants to invest in individual stocks or mutual funds.

Given that private plans have greater discretion than TSP to select options, many private plans have adopted an investment policy statement to guide their decision-making process. According to a 2005 industry survey,[46] 79 percent of responding plans had an investment policy statement. While these statements are not required by ERISA, DOL has issued regulations about written statements of investment policy. The regulations note that a statement may set guidelines about investment decisions for the investment manager.[47] According to one industry association, besides clarifying the intended goals and performance of the plan, the statement—which may include the process for selecting, monitoring, and altering investments—can guide future decisions and limit liability by showing that fiduciaries are following a prudent process.

[45]Recently enacted ERISA requirements apply to employer stock in such cases. For example, all plan participants must be allowed to diversify out of employer stock purchased through their own elective deferrals and after-tax contributions. 29 U.S.C. § 1054(j).

[46]The 49th Annual Survey of Profit Sharing and 401(k) Plans.

[47]29 C.F.R. § 2509.94-2.

FRTIB and Other Federal Agencies Have Responsibility for Educating Participants on Retirement Issues, and Responsibilities Vary for Private and State and Local Government Employee Plans

FRTIB, OPM, and staff of employing federal agencies have responsibility for educating TSP participants about their retirement plan and other retirement issues, and responsibilities vary for private and state and local government employee plans. FRTIB has responsibility for providing information to TSP plan participants to facilitate informed decision making about what level of contribution to make and how to invest those contributions. OPM is required to establish a training program for all retirement counselors and to develop, in consultation with FRTIB, a retirement financial literacy and education strategy for federal employees.[48] Retirement counselors are employed by federal agencies, and they provide employees with information on their retirement benefits, including information about TSP. ERISA requires private retirement plan sponsors to provide certain documents to participants, such as a summary plan description, but many plans provide more information than is required.[49] State and local government employee plans' education requirements vary, but all of the plans we studied are required to provide participants with benefit statements. They also make other types of information available to participants, such as tools for calculating retirement needs.

FRTIB Develops TSP-Specific Educational Materials, and OPM Provides General Retirement Education

FERSA requires FRTIB to provide participants with periodic statements about their accounts and a summary description of the plan's investment options to facilitate informed decision making.[50] To further inform participants about the plan, FRTIB provides additional information, such as how to roll over or transfer funds from other plans into TSP, information on agency matching contributions, TSP's loan program, and the monthly returns of TSP funds and their related indexes. FRTIB provides this information on TSP's Web site. According to FRTIB, the TSP Web site is its primary method for communicating with participants, but information is also available by telephone, and in written materials. The TSP Web site also includes a retirement calculator that participants can use to estimate how much they will need to save each year to meet their retirement goals, and a quarterly newsletter. For example, the newsletter's January 2007 feature article was titled "Pension Reform Law Benefits TSP

[48] 5 U.S.C. § 8350 and § 8350 note. Agencies generally refer to retirement counselors and other retirement education staff as benefits officers.

[49] 29 U.S.C. § 1021.

[50] 5 U.S.C. § 8439(c).

Participants," and included information about provisions in the Pension Protection Act of 2006 that apply to TSP. In addition to the educational materials available on the TSP Web site, FRTIB occasionally sends mailings to TSP participants. For example, mailings were sent to participants raising awareness about the new Lifecycle funds.

OPM is responsible for providing general retirement education to federal employees, including TSP participants, and it does this primarily through training retirement counselors at federal agencies, who provide federal employees with information on retirement benefits, including TSP. Retirement counselors' roles were expanded with passage of the Thrift Savings Plan Open Elections Act of 2004.[51] To implement the act, OPM's training will include information about retirement financial literacy and education. According to information provided by OPM, it will provide comprehensive training on the tools and resources it is developing, such as the retirement readiness index, an age-based profile containing information about an employee's state of readiness according to various dimensions. As of April 2007, OPM had produced and made available on its Web site a retirement video. According to OPM, the video provides an overview of critical information federal employees need to know as they plan for their retirement. OPM is required to consult with FRTIB about its implementation of the act. In addition to retirement counselors, federal agencies have TSP agency coordinators that, among other things, inform eligible employees of TSP options and benefits, maintain TSP informational materials, and respond to inquiries from active employees. TSP officials offer training to agency coordinators. Sometimes individuals serve as both agency coordinators and retirement counselors.

Private Plan Sponsors Are Responsible for Informing Participants about Their Plans, and Responsibilities Vary for State and Local Government Employee Plan Sponsors

The Employee Retirement Income Security Act of 1974 (ERISA) requires plan sponsors to give plan participants in writing the information they need to know about their retirement benefit plans, including plan rules, financial information, and documents on the operation and management of the plan. ERISA requires sponsors of private retirement plans to make available to participants the following:

- an annual report, which is a summary of an annual financial report that most plans must file with the Department of Labor;

[51] Pub. L. No. 108-469, § 2, 118 Stat. 3891, 3892.

- a summary plan description, which provides information about what the plan provides and how it operates, such as when an employee can begin to participate, how service and benefits are calculated, when benefits become vested, when and in what form benefits are paid, and how to file a claim for benefits; and
- account statements one or more times per year or upon request.[52]

A 2005 industry survey found that many private plan sponsors provide additional educational information, not required under ERISA, for such purposes as increasing employee participation, increasing satisfaction with their plans, and improving asset allocation.[53] They provide this information through enrollment kits, seminars and workshops, fund performance sheets, newsletters, retirement calculators, and Internet and intranet sites. For example, the private plan sponsor we spoke with provides one-on-one financial and investment counseling to its employees through a service provider. Additionally, almost half of the plans that responded to the industry survey indicated that they offer participants investment advice.

State and local government employee pension plan sponsors are required to educate their participants in a manner consistent with the state or local requirements and plan documents that govern their plans. Each of the four plans we studied require that a statement be sent to participants periodically or at the participant's request. At least two of the plan sponsors provide participants with summary plan descriptions, and at least one plan sponsor requires that participants be sent an annual report. Local and state officials expressed the importance of providing plan participants with information on a broad range of services and topics, for example, how to make contributions and the array of investment options. Each plan sponsor provides some information on its Web site; such information may include answers to frequently asked questions, forms, and information about investment options and retirement planning conferences. All of the officials we spoke with provide some type of general retirement information or non-plan-specific information to participants, such as retirement calculators. Three of the plan sponsors

[52] 29 U.S.C. §§ 1021-1025. ERISA requires plan sponsors to provide summary plan descriptions to participants within 90 days of being covered by the plan, then every 5 or 10 years, depending on changes.

[53] The 49th Annual Survey of Profit Sharing and 401(k) Plans.

make general retirement information available to their participants through service providers.

Conclusion

Through FERSA, Congress established FRTIB to administer TSP and charged DOL with establishing a program to carry out audits to determine the level of TSP compliance with FERSA requirements. According to DOL, its audit findings and recommendations provide details on all significant aspects of TSP operations, from the management of TSP investments to the information security of participants' data, and can also shape future oversight of FRTIB and its service providers. Although FRTIB is required by law to provide Congress each year with a list of audits, including summaries of significant DOL audit findings, there have been times when DOL has had issues of concern with FRTIB outside of its audit findings. In such instances, DOL has no formal process to communicate its issues of dispute. Consequently, we previously recommended that Congress amend FERSA to require DOL to establish a formal process by which it can report to Congress issues of critical concern.

Historically, communications between congressional committees of jurisdiction with FRTIB and DOL have been limited. Although Congress has occasionally held hearings where DOL and FRTIB officials have testified, such hearings are held irregularly, usually in response to a particular issue, such as abusive trading practices or when Congress was considering legislative changes to FERSA, such as adding an additional fund to TSP's investment options.

Congress created TSP as one of the basic elements of a new retirement system for federal workers. Since its inception, TSP has grown to become one of the largest defined contribution plans in the country, affecting the retirement of millions of current and former federal employees. As the size and complexity of TSP have grown, an appropriate level of oversight of FRTIB is critical to ensuring that federal workers' retirement savings are properly managed.

Agency Comments and Our Evaluation

We provided a draft of this report to the Federal Retirement Thrift Investment Board (FRTIB), the Department of Labor (DOL), and the Office of Personnel Management (OPM) for review and comment. FRTIB suggested that the report will be useful to the continued improvement of the TSP, and expressed appreciation for our constructive approach in conducting the review. Both FRTIB and DOL provided technical comments, which we have incorporated where appropriate. FRTIB's written comments are reproduced in appendix II.

As agreed with your staff, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies of this report to the Executive Director of FRTIB, the Secretary of DOL, and the Director of OPM, appropriate congressional committees, and others who are interested. We will also make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov. If you have any questions about this report, please call me at (202) 512-7215. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors are listed in appendix III.

Barbara D. Bovbjerg, Director
Education, Workforce, and
Income Security Issues

Appendix I: Selection of the Plan Sponsor Comparison Group

To compare the Federal Retirement Thrift Investment Board's (FRTIB) education responsibilities with those of other plan sponsors, we reviewed documents and interviewed officials representing sponsors of five defined contribution plans—four government employee pension plans and one private plan. The plans we studied were selected from a list of the 200 largest U.S. employee retirement plans as reported by *Pensions & Investments*, a trade journal for plan sponsors and other investors, as of September 30, 2005. Plans were selected based on three criteria—plan assets, plan type, and absence of fiduciary malfeasance. TSP is the largest defined contribution plan in the nation. The plans we studied, while having significantly fewer assets than TSP, were among the largest in total defined contribution plan assets. The five plans had assets ranging from approximately $3 billion to $21 billion. The plans we studied, like TSP, are participant directed, that is, investors make investment decisions and plan fiduciaries may receive limited liability from the results of these decisions.[1] Additionally, we reviewed Pension & Investments Online and LexisNexis, and could find no citations over the last 2 years for fiduciary malfeasance for the five plans we studied.

The four government employee pension plans we studied are a state supplemental 401(k) plan, a state 401(k) plan for all newly hired

[1]Special fiduciary rules contained in Department of Labor regulations protect plan fiduciaries from liability for individuals' investment decisions with respect to plans that provide participant-directed investments. These special fiduciary rules for plans with participant-directed investments are set forth pursuant to section 404(c) of the Employee Retirement Income Security Act. There are certain requirements that must be satisfied in order for these special rules to apply to plans that provide for participant-directed investments. Among other requirements, plans must offer participants at least three investment options and information about and investment instructions with respect to each of the investment options, and allow participants to exercise independent control over their investments.

employees, a university plan that includes a 401(a) plan and a tax deferred 403(b) plan, and a large city supplemental deferred compensation plan with a 401(k) plan. The private plan was a Fortune 100 company. We contacted seven private pension plans, but only one agreed to speak with GAO staff. The private plan sponsor we spoke with was willing to participate in our study, and its characteristics may or may not reflect the characteristics of other private pension plans. The interviews we conducted with plan sponsors are solely for illustrative purposes and are not generalizable.

Appendix II: Comments from the Federal Retirement Thrift Investment Board

THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

June 4, 2007

Ms. Barbara Bovbjerg
Director, Education, Workforce,
and Income Security Issues
Government Accountability Office
Washington, DC 20548

Dear Ms. Bovbjerg:

This is in response to your email of May 24, 2007, transmitting, for our comment, the Government Accountability Office (GAO) draft report entitled "FEDERAL RETIREMENT THRIFT INVESTMENT BOARD: Many Responsibilities and Investment Policies Set by Congress". The report is dated June 21, 2007, and will be issued to the Ranking Minority Member, Committee on Oversight and Government Reform, House of Representatives.

We would like to express our appreciation for the GAO's considered review of the voluminous data and reports provided by Federal Retirement Thrift Investment Board (Agency).

We note that there are no recommendations directed to the Agency in this report. However, attached are some technical suggestions that we believe may clarify parts of the discussion.

Thank you once again for the constructive approach that the GAO took in conducting this review of the Thrift Savings Plan (TSP). The information developed as a result of your review is useful to the continued improvement of the TSP.

Sincerely,

Gregory T. Long
Executive Director

Enclosure

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Barbara D. Bovbjerg (202) 512-7215 or bovbjergb@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made important contributions to this report: Tamara Cross, Assistant Director; Ramona Burton; Lara Laufer; Patrick Bernard; Matthew Saradjian; Roger Thomas; Rachael Valliere; Walter Vance; and Craig Winslow.

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