STATEMENT OF GREGORY T. LONG
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BEFORE THE SPECIAL COMMITTEE ON AGING OF THE UNITED STATES SENATE
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Chairman Kohl, Ranking Member Smith, and members of the Committee, my name is Greg Long. I am the Executive Director of the Federal Retirement Thrift Investment Board and, as such, the managing fiduciary of the Thrift Savings Plan for Federal employees. I welcome the opportunity to appear before your Committee to discuss the TSP loan and in-service withdrawal programs.

I commend the Committee's efforts to focus public attention on protecting and strengthening retirement savings programs, especially with regard to those participants who might engage in unnecessary borrowing or indiscriminate early withdrawals. The Board's own experience over the past twenty years shows that close attention and a willingness to adjust in these areas is essential to ensure a good balance between achieving participants' long-term retirement goals and meeting their short-term needs.

In 1988, TSP participants who voluntarily contributed their own funds were first permitted to borrow for four specific purposes: medical expenses, education, financial hardship, or to purchase a primary residence. Documentation to demonstrate the loan's purpose was required. Participants could have a maximum of two loans outstanding. Like 401(k) plans, TSP loans were subject to restrictions found in the Internal Revenue Code and in regulations issued by the Internal Revenue Service. As with similar loan programs in 401(k) plans, our loan program is intended to encourage employees to voluntarily contribute their own funds by allowing limited access to those funds when necessary.

After eight years of administrative experience, the Board identified three areas that required improvement. First, the four purposes were viewed by some as overly restrictive since many seemingly legitimate needs (such as expenses associated with adoption) did not automatically qualify for a loan. Second, the documentation process – which for a world-wide plan like the TSP was of necessity conducted over long distances by mail – was time-consuming and administratively difficult. Finally, some participants with financial difficulties were already overwhelmed by debt. They required debt relief in order to get their heads above water and to move forward.

The Board worked with the Congress and Senator Ted Stevens in particular -- who is widely regarded as the father of the TSP – to resolve these issues in legislation. As a result of the Thrift Savings Plan Act of 1996, the Board was permitted to offer general purpose loans requiring no documentation. Additionally, in-service withdrawals for financial hardship or for those who have attained age 59 ½ were allowed for the first time.

As expected, loan activity increased when these changes were implemented. Between 1997 and 2003, the number of participants with loans increased from 219,208 to 554,057. Although we cannot demonstrate any direct connection, the FERS participation rate increased from 82.9% to 86.9% during the same time period.

Interestingly, during this growth in the number of loans, the value of outstanding loan amounts as a percent of total TSP assets remained at 3% for three years and then topped-out at just 4%. Thus, while many more participants were borrowing for more purposes, the percentage of assets that remained fully invested for the long term was not significantly reduced. This was because of the continued growth of contributions and the strong investment returns from the markets during the late 1990's.

The TSP loan program was modified again in 2004. The need for this change was identified a year earlier when the Board implemented a new daily-valued record keeping system for the TSP. A relatively small number of participants were found to be borrowing slightly larger amounts over and over again in an apparent attempt to continuously supplement their basic pay. A review of this practice found that one participant had used the program to borrow a total of 31 times.

As originally implemented, the TSP loan program was viewed as a benefit of participation. In order to encourage voluntary contributions by employees, loans were available to all eligible participants without an application fee or processing charge. Interest is calculated at the Government Securities Investment (G) Fund interest rate during the month of application. While this simple design met original needs, it allowed for this frequent borrowing of relatively small amounts. As the Board was implementing the new record keeping system in 2003, this "serial borrowing" caused significant administrative problems. In July 2004, after careful study and review of private sector practices, the Board implemented three changes: a $50 loan fee, a 60-day waiting period between loans, and a limit of just one general purpose and one primary residence loan at any time.

We view these changes, which we continue to employ today, as highly effective. A total of 353,716 new TSP loans were disbursed during 2003, which was the last full year of operations under the old rules. After the transition year, 2004, the number of new loans issued declined to 192,757 in 2005. The overall number of loans, which was rapidly approaching one million, began to decline. The average amount borrowed for general purpose loans increased, as did the percentage of residential loans. However, the average loan balance relative to the average account balance has not trended up.

After reaching a high point of 4% in 2003, outstanding loan dollars as a percent of assets fell back to 3% and has held steady since then. Meanwhile, the total average monthly contribution per participant has continued to steadily increase -- $432 in 2005, $474 in 2006, $492 in 2007, and $497 thus far in 2008.

Unlike the changes which characterize the 20 year history of the TSP loan program, the in-service withdrawal program, which first became available in 1997, has

only had one major administrative change. Originally, like loans, financial hardship in-service withdrawals, which allowed participants to withdraw their own funds in times of genuine financial need, required documentation. As with loans, the Board found this requirement to be both restrictive and administratively burdensome. Therefore, with the introduction of the new record keeping system in 2003, participants were permitted to self-certify their hardship conditions. However, I would like to point out that in addition to the tax consequences associated with a withdrawal, participants are also restricted from making employee contributions (and therefore receiving matching contributions) for six months after taking a financial hardship withdrawal. Therefore, there are deterrents built into the program to discourage participants from acting indiscriminately.

Data on TSP hardship withdrawals do show an increase after we transitioned to hardship self-certification and the new loan rules. However, growth between 2005 and 2007 was relatively small, and data thus far for 2008 indicates no increase in utilization over last year. The average amount of a hardship withdrawal in 2007 ($8,081) trailed the average general purpose loan ($12,087) and residential loan ($18,793) amounts, as well as the average size of an age-based withdrawal ($55,476). Clearly, the negative aspects of hardship withdrawals have made them the least attractive option for participants.

Although utilization has been steady, through design and careful administration, we believe this program continues to meet an important need. Our education materials urge participants to fully recognize the adverse consequences of early withdrawal, and to consider borrowing if that option is available to them. We have provided copies of our Loan and In-Service Withdrawal booklets for review by the Committee. We have also provided copies of our January and July 2004 *Highlights*, the TSP newsletter, which we used to introduce the loan changes.

The age-based in-service withdrawal program is intended to allow individuals who reach their retirement age – 59 ½ under the Federal tax code – to access their funds as they transition into retirement. This program continues to achieve this goal, and changes have not been required.

Finally, I have also provided the Committee with copies of our July 2008 edition of the *Highlights*. The feature article of this newsletter, which was just published on our Web site, www.tsp.gov, and is being sent to participants who receive their quarterly statements by mail, is entitled "Look before you leap!" I would like to explain why I found it necessary to issue such a caution to our participants.

Earlier this year, I stepped out of the Board's office in downtown Washington and saw a bus stop billboard urging Federal employees to transfer their "old" TSP accounts to the advertising sponsor's IRA. Shortly thereafter, a second advertising campaign, similarly targeted, told readers that their TSP accounts would "retire."

I'm here today to advise that after 21 years, the TSP is still young and vigorous. It isn't getting old. And, it does not intend to retire. Thanks to the wisdom of Senator Stevens and other Congressional authors, it will continue to follow the timeless principle

of tracking broad market performance while adding value for participants via very low administrative expenses. And our participants recognize the value of the TSP. Last year, we accepted more than 20,700 checks totaling over $478 million in funds being rolled over into the TSP from private sector 401(k) and IRA accounts.

Separated participants may leave their funds on account if they wish. Nearly one million separated employees have chosen to do so. Those participants who would like to transfer their retirement savings from the TSP to an IRA are welcome to do so. But no one should move their funds from the TSP out of a concern that the TSP is old or retired.

All of our communications efforts encourage informed decision making. “Look before you leap!” gives our participants the information they need to resist the lure of misinformed advertisers and to make an informed decision.

In closing, I would again like to recognize the ongoing work by this Committee to protect and strengthen savings for retirement. Especially in a difficult economic environment, employees require consistent encouragement to save, and good information to make sound choices. Your hearing today advances both of these goals. Thank you for the opportunity to testify. I would be pleased to respond to any questions you may have.