




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

July 15, 2005

Memorandum to Department TSP Coordinators

FROM: Pamela-Jeanne Moran 
Director, Office of Benefits Services

SUBJECT: Introduction of the Thrift Savings Plan L Funds

Very shortly, we will announce the implementation date for the new TSP lifecycle (L) funds. Information about the L Funds is available from the TSP Web site, www.tsp.gov, and is included in the July issue of the *TSP Highlights* (copy attached). In addition, we will send all participants an advance postcard about the L Funds and, at implementation, we will send all participants a DVD. The DVD will contain a short presentation, the L Funds Information Sheet, and Questions and Answers. The Information Sheet and the Questions and Answers will also be available from the Web site. Participants may elect to invest in the L Funds by using the contribution allocation and interfund transfer options on the Web site or the ThriftLine, or by using the new Investment Allocation form (TSP-50 or TSP-U-50).

Although we are sending information directly to participants, we have also developed materials for the agencies and services to use to respond to questions and to incorporate into TSP briefings. Most of the items will be available from the TSP Web site, however, for the convenience of the agency and service TSP representatives, we are producing another DVD that contains:

- * Two versions of the presentation about the L Funds - one for civilian employees and one for uniformed services members.
- * L Funds Information Sheet - This is the best source for technical information about the L Funds.
- * Questions and Answers - This includes both common and technical questions.

- * Quick Reference Guide - This card addresses common questions that we think participants will ask, and as such, may be a valuable resource for TSP representatives.
- * L Fund poster - We will be sending both large and small versions of the L Fund poster to agencies and services through our normal distribution service. (You'll receive the same number of L Fund posters as you did the open season posters.) However, if additional copies are needed, the small poster is being provided on the DVD.
- * DVD package - The package explains how to use the DVD and also summarizes the key features of the L Funds.

The DVDs are designed to work in all DVD players - TV as well as computers with DVD drives. All of the materials may be downloaded from the DVD and printed locally or added to an intranet.

The hallmark of the L Funds is their simplicity, and we have tried to reinforce that concept in our communications materials to both participants and agency or service TSP representatives. We hope that the DVD approach will make it easier for TSP representatives to respond to questions about the L Funds and to incorporate L Fund information into their TSP programs.

Please let us know how many of the DVD training packages you would like for your TSP representatives. To do so, you may complete the attached "Request Form For L Funds DVD Training Package" and telefax it to Emma Key at 202-942-1451, or you may reply to this e-mail with the information requested by the form. We will ship the training packages directly to you for further distribution as soon as they are available. Because of the size of the files, we are not planning on sending the packages electronically. Depending upon demand, additional copies may be available, and we will announce this on our Web site under the section "Info for TSP Representatives."

If you have any questions about this package, please contact us at 202-942-1450.

Attachments

Request Form For L Funds DVD Package

Date: _____

Agency or Service: _____

Name: _____

Address: _____

Phone Number: _____

Number of L Fund DVDs for TSP Representatives: _____



Thrift Savings Plan HIGHLIGHTS

July 2005

Announcements

No More Open Seasons —
You can change the amount of your contributions at any time. (See page 4.)

ThriftLine — Make sure you have our correct telephone number.

1-TSP-YOU-FRST
1-877-968-3778
(toll-free)

If you are calling from outside the U.S. and Canada, call:

404-233-4400
(not toll-free)

TSP Information — The most current information about the TSP is available on our Web site:

www.tsp.gov

L Funds Offer a New Approach

Dear TSP Participant,

I am delighted to announce a new investment opportunity that can help you feel more secure about your retirement — the **TSP L Funds**.

We have established five “lifecycle funds” based on different time horizons. All you have to do is choose the year (after you leave Federal service) that you will need the money in your TSP account. Then move your money into the appropriate L Fund. Once you have selected your L Fund, you don’t need to worry about managing your investments. They are now on “cruise control” and everything is done for you.

If you prefer to make your own investment decisions and manage your account, you can continue to invest directly in the G, F, C, S, and I Funds. But if you would like to have the benefit of professionally designed funds, which are automatically adjusted as you get closer to your time horizon, then the L Funds may be right for you.

I hope that you will take the opportunity to read about the L Funds in this newsletter and view the DVD that is being sent to you this month. The TSP Web site offers additional information.

Best wishes,

Gary A. Amelio, Executive Director
Federal Retirement Thrift Investment Board

Choosing Your Investment Approach

The TSP offers you two approaches to investing your TSP account:

- **Choose one of the new L Funds.** The L Funds are “lifecycle funds” that are invested according to a professionally determined mix of stocks, bonds, and securities. Select one of the five L Funds based on your time horizon (that is, when you expect to need the money in your account).
- **Choose your own investment mix** from the individual TSP funds (the G, F, C, S, and I Funds) and manage your own account.

The TSP investment options are designed for you to choose *either* the L Fund that is appropriate for your time horizon, *or* a combination of the individual TSP funds that will support your personal investment strategy. However, you are permitted to invest in any fund or combination of funds. Just keep in mind that the L Funds are made up of the five individual funds (G, F, C, S, and I). If you invest in an L Fund as well as in the individual funds, you will duplicate some of your investments, and you may find that your allocation is not what you wanted.

If you decide to invest your entire account in one of the L Funds, you are done making your investment decisions. The TSP will do the rest for you.

If you choose your own investment mix from the G, F, C, S, and I Funds, remember that your investment allocation is one of the most important factors affecting the growth of your TSP account. If you prefer this “hands-on” approach, keep the following points in mind:

- **Consider both risk and return.** The F Fund (bonds) and the C, S, and I Funds (stocks) have higher potential returns than the G Fund (Government securities). But stocks and bonds also

carry the risk of investment losses that the G Fund does not. On the other hand, investing entirely in the G Fund may not give you the returns you need to meet your retirement savings goal.

- **You need to be comfortable with the amount of risk you expect to take.** Your investment comfort zone should allow you to use a “buy and hold” strategy so that you are not chasing market returns during upswings, or abandoning your investment strategy during downswings.
- **You can reduce your overall risk by diversifying your account.** The five individual TSP funds offer a broad range of investment options, including Government securities, bonds, and domestic and foreign stocks. Generally, it’s best not to put all of your eggs in one basket.
- **The amount of risk you can sustain depends upon your investment time horizon.** The more time you have before you need to withdraw your account, the more risk you can take. (This is because early losses can be offset by later gains.)
- **Periodically review your investment choices.** Check the distribution of your account balance among the funds to make sure that the mix you chose is still appropriate for your situation. If not, rebalance your account to get the allocation you want.

Take this opportunity to review your account and make sure that your money is allocated according to your investment strategy. If you aren’t sure, or if you would like to take some of the stress out of making these investment decisions, consider investing in one of the L Funds. They are described in detail on the next page.

The L Funds

Initial Allocations



L 2040

G	5%
F	10%
C	42%
S	18%
I	<u>25%</u>
	100%



L 2030

G	16%
F	9%
C	38%
S	16%
I	<u>21%</u>
	100%



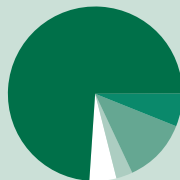
L 2020

G	27%
F	8%
C	34%
S	12%
I	<u>19%</u>
	100%



L 2010

G	43%
F	7%
C	27%
S	8%
I	<u>15%</u>
	100%



L Income

G	74%
F	6%
C	12%
S	3%
I	<u>5%</u>
	100%

- G Fund** Government Securities
- F Fund** Bonds
- C Fund** Large/Medium Stocks
- S Fund** Small/Medium Stocks
- I Fund** International Stocks

More About the L Funds

How do I choose the right L Fund for me? All you have to do is determine your “time horizon” by answering this question: “After I leave Federal service, when will I need the money in my TSP account?” (Depending on your age and your other assets, your time horizon may be later than your retirement date.)

Now choose the TSP L Fund that matches your time horizon.

- **L 2040** – 2035 and later
- **L 2030** – 2025 through 2034
- **L 2020** – 2015 through 2024
- **L 2010** – 2008 through 2014
- **L Income** – Currently (or before 2008) withdrawing from your account

Once you choose your time horizon, the rest is done for you.

How do the L Funds work? Investment experts have combined the individual TSP funds (G, F, C, S, and I Funds) in percentages that are appropriate for each L Fund’s time horizon. The pie charts on the left show the initial proportions of the G, F, C, S, and I Funds contained in each of the L Funds.

L Funds with farther time horizons (for example, L 2040) are focused on growth, and therefore are invested more aggressively, with higher percentages in foreign and domestic stocks (the C, S, and I Funds) and lower percentages in Government securities (the G Fund). As each L Fund matures, its mix gradually shifts to more conservative investments with a higher percentage of Government securities and lower percentages of domestic and foreign stocks. This more conservative mix is designed to preserve assets while still providing protection against inflation.

When an L Fund reaches its time horizon, it will roll into the L Income Fund, and a new fund will be added with a more distant time horizon. For example, when

L 2010 rolls into the L Income Fund, a new L 2050 Fund will be created.

Because it is important for each L Fund to maintain its target investment mix, the TSP will rebalance each L Fund automatically — generally each business day — to adjust the mix as a result of price changes in the underlying funds. Then, each quarter, the TSP will shift the investments in each L Fund to a slightly more conservative mix. In addition, experts will periodically review the investment mixes of each L Fund to be sure they are still appropriate.

Will I own shares as I do in the other TSP funds? When you invest in one of the L Funds, you are purchasing shares, just as you do in the five individual TSP funds. The daily change in each L Fund’s share price will reflect the daily change in the share prices of the underlying G, F, C, S, and I Funds.

Can I lose money in an L Fund? The L Funds’ asset allocations are based upon expected investment performance. The asset allocations of the L Funds are designed to produce (over time) the best possible return for the level of risk taken. However, because L Funds include the same stocks and bonds contained in the individual TSP funds, they will have periods of gain and loss, and returns are not guaranteed.

Will I have to pay higher fees? There are no additional fees associated with the L Funds. Each L Fund’s expenses are that fund’s proportional share of the expenses of the underlying individual TSP funds.

How can I learn more? Later this month, you should receive a DVD in the mail explaining the details of the new L Funds. In the meantime, the L Fund Information Sheet and the Qs and As on the TSP Web site provide additional information.

(Continued on page 5)

How do I put my money into the fund(s) I want? Once you decide on your investment approach — L Funds or the individual TSP funds — you can take either or both of the following actions to put your money in the fund(s) of your choice:

- Make a **contribution allocation** to direct how new money coming into your account (payroll contributions, transfers into the TSP, loan payments) will be invested. A contribution allocation has no effect on your existing account balance.
- Make an **interfund transfer** to move your existing account balance into the funds you choose. An interfund transfer is a one-time transaction that affects your existing balance. It has no effect on new money coming into your account.

Use your Social Security number and your TSP PIN to make these transactions on the TSP Web site or the ThriftLine. You can also submit an Investment Allocation form to the TSP. The form is available from your agency or service.

Open Seasons Eliminated

TSP open seasons were eliminated as of July 1. This change will benefit you in a number of ways:

- You can now make an election to adjust the amount of your contributions at any time. This is especially helpful to those employees who wish to maximize their annual contributions, or to FERS employees who wish to distribute their contributions over the course of the year in order to maximize agency matching contributions.
- If you are a new hire, you can begin contributing to the TSP at any time. (However, there is still a waiting period before FERS employees may receive agency contributions).
- If you must terminate your contributions for any reason, you are not required to wait for the second open season to restart them; you can restart at any time.

Rates of Return									
	G Fund	F Fund	LBA Bond Index	C Fund	S&P 500 Index	S Fund	DJW 4500 Index	I Fund	EAFE Index
Monthly – 2005									
January	0.4%	0.6%	0.6%	-2.4%	-2.4%	-3.4%	-3.4%	-1.9%	-1.8%
February	0.4	-0.6	-0.6	2.1	2.1	2.0	1.9	4.3	4.3
March	0.4	-0.5	-0.5	-1.7	-1.8	-1.9	-1.9	-2.5	-2.5
April	0.4	1.4	1.4	-1.9	-1.9	-3.7	-3.7	-2.3	-2.4
May	0.4	1.0	1.1	3.1	3.2	6.0	6.0	-0.4	0.0
Annual 1995 – 2004									
1995	7.0%	18.3%	18.5%	37.4%	37.6%	–	33.5%	–	11.3%
1996	6.8	3.7	3.6	22.8	23.0	–	17.2	–	6.1
1997	6.8	9.6	9.7	33.2	33.4	–	25.7	–	1.5
1998	5.7	8.7	8.7	28.4	28.6	–	8.6	–	20.1
1999	6.0	-0.8	-0.8	21.0	21.0	–	35.5	–	26.7
2000	6.4	11.7	11.6	-9.1	-9.1	–	-15.8	–	-14.2
2001	5.4	8.6	8.4	-11.9	-11.9	-2.2*	-9.3	-15.4*	-21.4
2002	5.0	10.3	10.3	-22.0	-22.1	-18.1	-17.8	-16.0	-15.9
2003	4.1	4.1	4.1	28.5	28.7	42.9	43.8	37.9	38.6
2004	4.3	4.3	4.3	10.8	10.9	18.0	18.1	20.0	20.2
Compound Annual 1995 – 2004									
	5.7%	7.7%	7.7%	12.0%	12.1%	–	11.9%	–	5.6%

The returns for the TSP funds represent net earnings after deduction of accrued administrative expenses and, in the cases of the F, C, S, and I Funds, after deduction of trading costs and accrued investment management fees. The returns for the four indexes shown do not include any deduction for administrative expenses, trading costs, or investment management fees.

* The S and I Funds were implemented in May 2001; therefore, there are no returns for these funds for earlier periods. Returns shown for 2001 are for May through December.