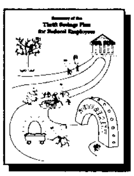
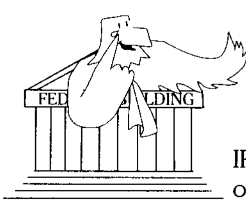
Highlights for Thrift Savings Plan Participants

NOVEMBER 1995

TSP Open Season:
November 15 – January 31



New Plan Summary was distributed in July and August. If you did not receive your copy, check with your agency personnel office or, if you are separated, with the TSP Service Office. Visually impaired employees can obtain a copy of the Plan Summary in large print or on audiocassettes from their agency personnel offices.



Leaving Government service? You can leave your money in your account or have the TSP transfer it to an IRA and continue to defer taxes on your retirement savings. You can also withdraw your account in a single payment or a series of monthly payments or have the TSP purchase a life annuity for you. Your personnel office should give you a copy of the TSP Withdrawal Booklet, forms, and tax information.

From January 1988 – June 1995, separated participants withdrew about $2.3 billion from their TSP accounts. About 170,000 participants had their accounts transferred to IRAs and over 280,000 received their accounts in a single payment (including cashouts of accounts of $3,500 or less). The TSP has purchased 3,770 annuities for participants. Accounts are maintained for nearly 200,000 separated participants, including over 6,000 who are receiving monthly payments from the TSP.

Court Order Booklet explains how TSP accounts can be affected by divorce, annulment, or legal separation. If you need a copy, ask your personnel office for the recently revised (June 1995) version.

The TSP Looks to the Future

In May, the Federal Retirement Thrift Investment Board approved two significant improvements to the TSP.

New Investment Funds. As a TSP participant, you currently have a choice of three investment funds: the Government Securities Investment (G) Fund, the Common Stock Index Investment (C) Fund, and the Fixed Income Index Investment (F) Fund. The Board reviewed various additional investment options and decided that a small-capitalization stock index fund and an international stock index fund would complement the existing G, C, and F Funds. Adding a small stock fund and an international stock fund will create the potential for higher returns and the opportunity for participants to invest in major markets that are currently not available in the TSP.

The small-capitalization stock index fund will track the performance of the Wilshire 4500 index. The Wilshire 4500 index represents approximately 35% of the value of the U.S. stock markets. It includes all of the common stocks actively traded in the U.S. stock markets except those in the S&P 500 index (which the C Fund tracks). The C Fund in combination with the Wilshire 4500 index fund will allow you to invest in virtually the entire U.S. stock market. The compound annual rate of return for the Wilshire 4500 index over the 10 years from 1985 – 1994 was 12.6% compared to 14.4% for the S&P 500 index.

The international stock index fund will track the performance of the Europe, Australia, and Far East (EAFE) index. The EAFE index is the most widely followed international equity index. It covers approximately 60% of the stock markets of the 20 countries included in the index. Domestic and international stock markets often move in opposite directions because of differences in national economies and government policies. As a result, investing in both the C Fund and the EAFE index fund can reduce the risk of large swings in returns. This is because, as one market is performing poorly, the other market often performs well, thus cushioning the losses from one market with the gains from the other market. The compound annual rate of return for the EAFE index over the 10 years from 1985 – 1994 was 17.5%.

Congress must amend the Federal Employees' Retirement System Act of 1986 (FERSA) to allow the TSP to add the new investment options. In May, the Board submitted proposed legislation to Congress; S. 1080 and H.R. 2306 have since been introduced to add these two new funds.

Daily Valuation. In 1987, when the TSP system was developed, most retirement savings plans like the TSP valued account balances monthly. This means that earnings are credited, loans and withdrawals are paid, and interfund transfers occur once each month. Daily valuation has now become more common among plans like the TSP. With daily valuation, the value of each investment fund is updated each day. This results in daily updating of account balances, speeds up loans and withdrawals, and allows more timely execution of interfund transfer requests.

(Continued on page 2)

? Participants Ask

Q How do I designate a beneficiary for my account?

A You can designate a beneficiary for your TSP account by completing Form TSP-3, Designation of Beneficiary (Revised 11/94), which is available at your personnel office (or from the TSP Service Office if you have left Federal service). Send your signed and witnessed form to the TSP Service Office at the address on the form.

Q How do I know if the TSP has the most recent beneficiary information on file?

A Effective January 1, 1995, all TSP-3 forms must be filed directly with the TSP recordkeeper. If you had previously filed Form TSP-3 with your agency, your agency should have transferred it to the TSP recordkeeper. Your Participant Statement shows whether you have a designation of beneficiary form on file with the TSP and the date you signed it.

To update, change, or cancel your designation of beneficiary, submit another Form TSP-3 to the TSP Service Office.

Q Do I have to designate a beneficiary?

A It is only necessary to designate a beneficiary for your TSP account if you do not wish to use the "standard order of precedence" for distributing your account after your death. This is defined on page 31 of the new *Summary of the Thrift Savings Plan for Federal Employees.*

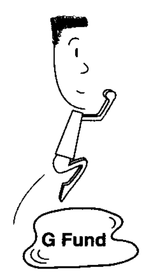
Future *Continued from page 1*

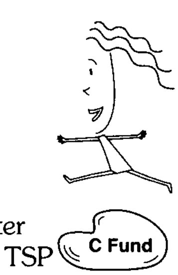
Redesign of TSP Recordkeeping System. Because it is not practical to convert the existing TSP recordkeeping system to daily valuation, an entirely new system must be developed. The Board will contract with a firm that specializes in computer systems to design and develop the new TSP recordkeeping system. Because of its complexity and size, this project will take two to three years. Assuming that legislation authorizing the additional investment funds becomes law, the new funds will be offered upon conversion to the new, daily valued system.

Other TSP Enhancements. In the meantime, the TSP has already implemented enhancements to existing features. One improvement involves the timing of monthly processing, which now takes place after the fourth business day of each month, rather than over the weekend following the sixth business day. As a result, account balances and the TSP rates of return are updated sooner on the ThriftLine, and loans and withdrawals are paid earlier in the month than previously. Also, loans and withdrawals from accounts with C and F Fund investments are now approved and scheduled for disbursement through the fourth business day of each month instead of having an earlier cutoff date.

As a separated participant, if you elect to receive (or are receiving) your account balance in a series of monthly payments, you now have the opportunity to invest in the C and F Funds and to make monthly interfund transfers. Also, beginning in 1996, the TSP will implement electronic funds transfer (EFT) for monthly payments. This will eliminate the mailing of checks every month and will transmit your payments directly to the checking or savings account that you designate.

Don't Jump!





A look at recent TSP activity shows why jumping in and out of the stock market is not a good idea. After a lackluster 1994 C Fund return of 1.3%, TSP participants transferred almost $100 million from the C Fund to the G Fund in December 1994 and January 1995. The stock market rallied strongly in the first half of 1995. The C Fund return for January through July was 24.1% compared to 4.3% for the G Fund. In response to the strong C Fund performance, participants transferred $298 million into the C Fund in June and July 1995.

A participant who transferred $10,000 from the C Fund to the G Fund in December, and then transferred it back into the C Fund in July, gave up approximately $2,000 in additional earnings by missing out on the large stock market gains through July. Taken as a whole, those participants who left the C Fund in December and January and those who transferred money into the C Fund in June and July lost approximately $48 million in additional earnings because their money was not in the C Fund during the seven months of strong stock market gains.

This experience illustrates the pitfalls of reacting to short-term market movements. Because market swings are difficult to predict, leaving the stock market during a period of weak performance can cause you to miss a subsequent rebound. By the time you react to the market upswing, it may be too late, and you buy back in at higher prices. For this reason, you should view investing in the relatively volatile C Fund (and F Fund) as a long-term strategy.

Thrift Savings Plan Investment Information

The Thrift Investment Board manages the G Fund assets. The Board has contracts with Wells Fargo Institutional Trust Company (Wells Fargo), a company jointly owned by Wells Fargo Nikko Investment Advisors and Wells Fargo & Co., to manage C and F Fund assets.

Following is a brief description of the three TSP funds. For more information about the G, C, and F Funds, see the *Summary of the Thrift Savings Plan for Federal Employees.*

Government Securities Investment Fund

The G Fund is invested in short-term nonmarketable U.S. Treasury securities that are specially issued to the TSP. The G Fund interest rate equals the average of market rates of return on U.S. Treasury marketable securities outstanding with four or more years to maturity. There is no credit risk (risk of nonpayment of principal or interest) for the Treasury securities in the G Fund. In addition, market risk (the risk that investments may fluctuate in value as interest rates change) is eliminated by the Board's current policy of investing the G Fund in short-term rather than longer-term securities.

Table 1 presents the calendar-year total rates of return for the last 10 years for G Fund related securities, based on the monthly rates (compounded) for such securities. It also shows the actual 1988 – 1994 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1994 return by 0.10%, or $1.00 for every $1,000 of G Fund account balance. There is no assurance that future rates of return for the G Fund will resemble any of these rates.

Table 1

Year	G Fund*	Related Securities
1985		11.3%
1986		8.3%
1987		8.7%
1988	8.8%	9.2%
1989	8.8%	9.0%
1990	8.9%	9.0%
1991	8.1%	8.3%
1992	7.2%	7.3%
1993	6.1%	6.2%
1994	7.2%	7.3%
1988 – 1994 compound annual rate of return	7.9%	8.0%
1985 – 1994 compound annual rate of return		8.5%

* *The first G Fund investment occurred on April 1, 1987.*

Common Stock Index Investment Fund

The C Fund is invested in the Wells Fargo Equity Index Fund, a commingled fund that tracks the Standard & Poor's (S&P) 500 stock index. The C Fund gives participants the opportunity to diversify their investments and to earn the relatively high investment return that stocks sometimes provide, while lessening

(Continued in next column)

the effect that the poor performance of an individual stock or industry will have on overall investment performance. The risk of investing in the C Fund is that the value of stocks can decline sharply. The total return on the C Fund could be negative, resulting in a loss.

Table 2 presents the calendar-year total rates of return for the Wells Fargo Equity Index Fund and the S&P 500 stock index for the last 10 years. It also shows the 1988 –1994 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1994 C Fund return by 0.11%, or $1.10 for every $1,000 of C Fund account balance. There is no assurance that future rates of return for the C Fund will resemble any of these rates.

(Continued on page 4)

Table 2

Year	C Fund*	Wells Fargo Equity Index Fund	S&P 500 Index**
1985		32.3%	32.0%
1986		18.5%	18.5%
1987		5.2%	5.2%
1988	11.8%	16.6%	16.8%
1989	31.0%	31.6%	31.5%
1990	–3.2%	–3.2%	–3.2%
1991	30.8%	30.4%	30.6%
1992	7.7%	7.6%	7.7%
1993	10.1%	10.1%	10.0%
1994	1.3%	1.3%	1.3%
1988 – 1994 compound annual rate of return	12.1%	12.8%	12.8%
1985 – 1994 compound annual rate of return		14.4%	14.4%

* *The first C Fund investment in the stock market occurred on January 29, 1988.*
** *Calculated by Wilshire Associates.*

Investment Information

Continued from page 3

Fixed Income Index Investment Fund

The F Fund is invested in the Wells Fargo U.S. Debt Index Fund, a commingled fund that tracks the Lehman Brothers Aggregate (LBA) bond index. This index consists primarily of high-quality fixed-income securities representing the U.S. Government, corporate, and mortgage-backed securities sectors of the U.S. bond market.

The F Fund offers the opportunity for increased rates of return in periods of generally declining market interest rates. At such times, the values of the longer-term securities held in the F Fund should increase, unlike those of the short-term securities held in the G Fund. The F Fund has the potential for negative returns (when market interest rates are increasing), which could result in a loss.

Table 3 presents the calendar-year total rates of return for the Wells Fargo U.S. Debt Index Fund and the LBA bond index for the last 10 years. It also shows the 1988–1994 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1994 F Fund return by 0.12%, or $1.20 for every $1,000 of F Fund account balance. There is no assurance that future rates of return for the F Fund will resemble any of these rates.

Recent performance of the TSP funds. Table 4 presents monthly rates of return (after expenses), which are used in crediting earnings to your account.

Table 3

Year	F Fund*	Wells Fargo U.S. Debt Index Fund**	LBA Bond Index***
1985			22.1%
1986			15.3%
1987		2.5%	2.8%
1988	3.6%	7.9%	7.9%
1989	13.9%	14.5%	14.5%
1990	8.0%	8.9%	9.0%
1991	15.7%	16.0%	16.0%
1992	7.2%	7.4%	7.4%
1993	9.5%	9.7%	9.8%
1994	−3.0%	−2.9%	−2.9%
1988 – 1994 compound annual rate of return	7.7%	8.6%	8.6%
1985 – 1994 compound annual rate of return			10.0%

* *The first F Fund investment in the bond market occurred on January 29, 1988. Through December 1990, the F Fund was invested in the Wells Fargo Bond Index Fund, which tracked the Lehman Brothers Government/Corporate bond index.*

** *Established in July 1986. Prior to January 1990, the Wells Fargo U.S. Debt Index Fund tracked the Salomon Brothers Broad Investment Grade index.*

*** *Calculated by Lehman Brothers.*

Table 4

Month	G Fund	C Fund	F Fund
1994			
October	0.6%	2.2%	−0.1%
November	0.6%	−3.6%	−0.2%
December	0.7%	1.5%	0.7%
1995			
January	0.7%	2.6%	2.0%
February	0.6%	3.9%	2.4%
March	0.6%	2.9%	0.6%
April	0.6%	2.9%	1.4%
May	0.6%	4.0%	3.8%
June	0.5%	2.3%	0.7%
July	0.5%	3.3%	−0.2%
August	0.6%	0.3%	1.2%
September	0.5%	4.2%	1.0%
12 months	7.5%	29.6%	13.9%

TSP Accounts
as of 9/30/95

G Fund	$ 21.0 billion
C Fund	$ 9.9 billion
F Fund	$ 2.0 billion
Total accounts	$ 32.9 billion
Participants	2.2 million

Buying an Annuity?

If you are considering having the TSP purchase an annuity for you with your account balance, please be aware that annuity factors and estimated monthly payment amounts contained in the March 1995 TSP Annuities Booklet will be changing effective January 1, 1996. Call the TSP Service Office in December for the new rates.

ThriftLine

The Plan News feature is up and running! Call the **ThriftLine** at **(504) 255-8777** and select Plan Information from the Main Menu and then select Plan News. The Plan News is updated every few weeks to provide you with timely information about Open Seasons, revised annual limits for contributions, important reminders, and changes to Plan procedures.