Highlights for Thrift Savings Plan Participants

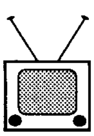
MAY 1993

TSP Open Season:
May 15 - July 31

TSP Investments

Investment Booklet Available. The August 1992 booklet, *Thrift Savings Plan Investments: Options and Operations*, supplements investment information in the *Summary of the Thrift Savings Plan for Federal Employees.*

The Plan Summary contains all the information you need about the Thrift Savings Plan. But, if you have read the Plan Summary and you still want to know more about the TSP investment funds and how they are administered, ask your personnel office for a copy of the Investment Booklet.



TSP on Video. A new animated TSP video makes it easy for you to understand the basics of the TSP. Ask your personnel office for a viewing. The TSP video is also available in a captioned format for hearing-impaired employees.

Coming back from overseas? If you have recently moved, make sure your new personnel office changes your address for the TSP. If you have separated from service and moved, send a Change of Address, Form TSP-9, to the TSP Service Office.

RIF

Full Withdrawal Options for RIFed Employees. Legislation passed in 1992 allows participants who separate from service because of a Reduction in Force to choose any TSP withdrawal option, including immediate cash payments. They may also choose to leave their money in the Plan. *The full range of withdrawal options will be available to those who are RIFed on or after July 1, 1993.* Your personnel office has more information.

Managing the Risks of C and F Fund Investments

More and more TSP participants are choosing to invest some of their account balances in the C or F Fund. As of March 31, 1993, 58 percent of FERS contributors and 53 percent of CSRS contributors had investments in the C or F Fund. While the G Fund continues to be the most popular fund, comprising over $13 billion of the $17 billion invested in TSP accounts, participants are increasingly choosing to diversify their investments by allocating certain percentages to the C or F Fund.

As shown on pages 3 and 4 of these Highlights, C and F Fund returns are much more volatile than G Fund returns. But when you invest in these funds, you can apply two important investment techniques — **dollar cost averaging** and **account rebalancing** — which allow you to gradually acquire and maintain the investment mix you want while reducing the risks of investing in volatile markets.

Allocating your contributions. Consider, for example, a TSP participant who filled out Form TSP-1, Election Form, to put 35% of payroll contributions into the risk-free G Fund, and 65% into more volatile stock and bond investments (35% in the C Fund and 30% in the F Fund). Because she is investing fixed amounts steadily over time, or **dollar cost averaging**, our participant is making the markets' volatility work for her. With this strategy, the participant's investment dollars "buy" more bonds or shares of stock when prices are low and fewer shares at a higher price, resulting in purchase prices that are lower than the average market prices. (Although participants don't buy shares in the C and F Funds, the C and F Funds *do* buy shares of the Wells Fargo stock and bond funds — see pages 3 and 4.)

Dollar cost averaging reduces the risk of making large investments in stocks and bonds when prices are high. But dollar cost averaging does not protect the investor against losses when stock and bond markets are declining. The persistent investor who rides out losses and sticks to this strategy, however, will avoid a common investor error — panicking during market losses and reducing investments when prices are low. The investor who tries to "time" the market, moving in and out of funds to capture the highest returns, will lose the benefits of dollar cost averaging.

Maintaining your allocation. Once you have chosen a mix of investments in the G, C, and F Funds that meets your savings needs, you can periodically check your balances to compare the distribution of your money among the funds with the allocation you chose. It is wise to do this because earnings credited to your account can shift the allocation of your account balance among the three funds. If the distribution has shifted more than you like, you may wish to use a technique known as **account rebalancing** — that is, making periodic interfund transfers to restore your original investment mix.

(Continued on page 2)

? Participants Ask

Q **Why can I contribute only 5% or 10% to my account when the 1993 IRS limit on contributions is $8,994?**

A When the TSP was created, Congress established the contribution limits of 5% of basic pay for CSRS employees and 10% for FERS employees. The 10% FERS limit, along with agency matching contributions, was intended to provide FERS employees with retirement benefits comparable to the CSRS annuity.

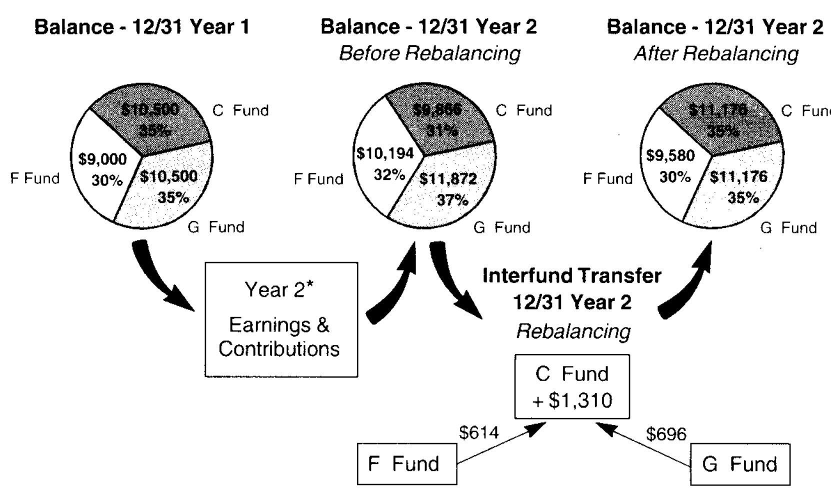
The TSP contribution limits should not be confused with the IRS "elective deferral limit," which limits the amount that higher-paid employees can contribute to their accounts. Each January, the IRS announces the maximum amount employees can contribute to the TSP, or to plans like it, in that year ($8,994 in 1993). This elective deferral limit applies to both Federal employees and private sector employees who contribute to plans like the TSP. Since most Federal employees make less than $89,940, the IRS elective deferral limit serves as a limit only on the contributions of higher-paid employees.

> If you are a FERS employee who makes more than $89,940 a year, you may reach the IRS limit on your TSP contributions before the end of the year and lose Agency Matching Contributions. Ask your personnel office for the TSP Fact Sheet, "Annual Limit on Elective Deferrals," which will help you calculate the maximum amount you can contribute each pay period and still receive full Agency Matching Contributions.

C and F Fund Investments *Continued from page 1*

Periodically rebalancing your TSP account offers two distinct advantages. It allows you to buy into volatile stock and bond markets when prices are relatively low and to sell when prices are relatively high, without the risks and pitfalls of "timing" the market. You don't need to know (or guess) when stock and bond prices are relatively high or low; the change in the distribution of your account from your original asset allocation will demonstrate this for you. In addition, rebalancing keeps your risk at a constant level. If you periodically monitor and rebalance your account, you won't find yourself more (or less) exposed to risk than you want to be. The following diagram shows annual rebalancing in the account of the participant in our example on page 1.

How Rebalancing Works



*Assumptions: Year 2 Rates of Return: G Fund = 8.0%, C Fund = -10.0%, F Fund = 9.0%
Year 2 Contributions: G Fund = $420, C Fund = $420, F Fund = $360

Because stock values have declined during this investment period, the C Fund portion of the account is now smaller than the participant had originally chosen, decreasing from 35% to 31% of the account. To correct this, the participant does an interfund transfer (Form TSP-30) to rebalance the account to the original investment mix — 35% in the G Fund, 35% in the C Fund, and 30% in the F Fund. (You can call the TSP Inquiry Line at any time to find out your balances in the three funds, or check your semiannual Participant Statement.)

Changing your strategy. Saving for retirement is a long-term process. Because your age and financial circumstances change, you may change your investment strategy throughout the years you save.

Let's say you've been investing most of your account in the riskier C Fund, and you want to allocate more of your investment to the G Fund, perhaps because you expect to retire and withdraw your account in the near future. If you change the allocation of your contributions by submitting a new Form TSP-1, your account will shift toward the percentages you requested as future contributions are invested in your account, but this will be a very gradual process. If you want to reallocate your entire account so that it will reflect your new investment mix more quickly, you should consider a series of interfund transfers (you can make up to four a year). Making a series of transfers will help you avoid the potential risk associated with moving a large chunk of your account all at once with a single interfund transfer. This could help reduce the risk of getting out of the C Fund when the stock market is relatively low.

Thrift Savings Plan Investment Information

The Thrift Investment Board manages the G Fund. 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 minimized by the Board's current policy of investing the G Fund in short-term rather than longer-term securities.

The table to the right presents the calendar-year total rates of return for the last ten years for G Fund related securities, based on the monthly rates (compounded) for such securities. The table also shows the actual 1988 - 1992 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1992 return by 0.13%, or $1.30 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.

Year	G Fund	Related Securities
1983		11.61%
1984		13.13%
1985		11.33%
1986		8.29%
1987		8.73%
1988	8.81%	9.19%
1989	8.81%	9.01%
1990	8.90%	8.97%
1991	8.15%	8.26%
1992	7.23%	7.32%
1983 - 1992 average annual rate of return		9.57%

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 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.

The table below 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 ten years. The table also shows the 1988 -1992 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1992 C Fund return by 0.14%, or $1.40 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)

Year	C Fund	Wells Fargo Equity Index Fund	S&P 500 Index*
1983		22.37%	22.36%
1984		6.55%	6.12%
1985		32.32%	32.02%
1986		18.49%	18.55%
1987		5.23%	5.23%
1988	11.84%**	16.60%	16.83%
1989	31.03%	31.61%	31.53%
1990	−3.15%	−3.19%	−3.18%
1991	30.77%	30.42%	30.57%
1992	7.70%	7.61%	7.68%
1983 - 1992 average annual rate of return		16.19%	16.16%

* *Calculated by Wilshire Associates.*

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

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 Shearson Lehman Brothers Aggregate (SLBA) 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.

The table to the right presents the calendar-year total rates of return for the Wells Fargo U.S. Debt Index Fund and the SLBA bond index for the last ten years. The table also shows the 1988-1992 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1992 F Fund return by 0.15%, or $1.50 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.

Year	F Fund	Wells Fargo U.S. Debt Index Fund*	SLBA Bond Index**
1983			8.35%
1984			15.15%
1985			22.11%
1986			15.26%
1987		2.52%	2.76%
1988	3.63%***	7.93%	7.89%
1989	13.89%	14.45%	14.53%
1990	8.00%	8.89%	8.96%
1991	15.75%	16.03%	16.00%
1992	7.20%	7.37%	7.40%
1987 - 1992 average annual rate of return		9.44%	9.50%
1983 - 1992 average annual rate of return			11.71%

* *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 Shearson Lehman Brothers, Inc.*

*** *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 Shearson Lehman Brothers Government/Corporate bond index.*

Recent performance of the TSP funds. The monthly rates of return (after expenses) for the 12 months through March 1993 are presented below. These rates of return are used in crediting earnings to your account each month:

Month	G Fund	C Fund	F Fund
1992			
April	0.62%	2.91%	0.67%
May	0.64%	0.49%	1.84%
June	0.60%	−1.45%	1.36%
July	0.60%	4.11%	2.00%
August	0.57%	−2.02%	1.00%
September	0.54%	1.15%	1.15%
October	0.55%	0.42%	−1.30%
November	0.56%	3.39%	0.01%
December	0.58%	1.21%	1.54%
1993			
January	0.58%	0.86%	1.88%
February	0.49%	1.35%	1.73%
March	0.52%	2.09%	0.41%
12 months	7.07%	15.31%	12.94%

TSP Accounts

as of 3/31/93

G Fund	$ 13,127 million
C Fund	$ 2,929 million
F Fund	$ 870 million
Total accounts	$ 16,926 million

TSP Inquiry Line (504) 255-8777

With the PIN from your Participant Statement, you can call for your account balance, rates of return, the amount you may be eligible to borrow, and current loan interest rates. You can also ask for an Interfund Transfer Request form (TSP-30) or for the status of your withdrawal request (if separated).

Telecommunications Device for the Deaf (TDD) (504) 255-5113

Monday through Friday, 7:45 a.m. – 4:15 p.m. (Central Time).