Highlights for Thrift Savings Plan Participants

MAY 1994

TSP Open Season:
May 15 – July 31

New Withdrawal Leglislation — In March 1994, Congress enacted new legislation to allow all separated participants to choose any withdrawal option — or to leave their vested money in the TSP — regardless of length of service or retirement eligibility. Before the legislation becomes effective, however, the Federal Retirement Thrift Investment Board must adopt new procedures and regulations to implement it. The Board expects to do so within the next several months, and in any event, by March 1995, as the legislation requires.

Court Orders

Court Order Booklet — Gives participants and attorneys information about how claims may be made on TSP accounts as a result of divorce, separation, or annulment. Ask your agency personnel office for a copy.

1994 IRS Limit: $9,240
If you are a FERS employee who makes more than $92,400 a year, you may reach the IRS limit on your TSP contributions before the end of the year and miss out on some Agency Matching Contributions. Ask your personnel office for the TSP Fact Sheet, "Annual Limit on Elective Deferrals." The Fact Sheet will help you calculate the maximum amount you can contribute each pay period and still receive full Agency Matching Contributions.

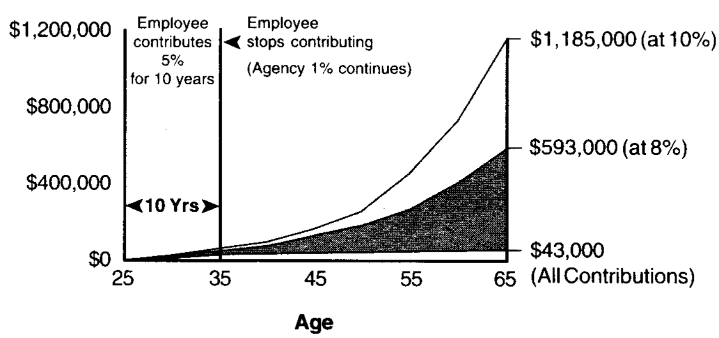
Buyout Money — Buyout money that you may receive (for early retirement or voluntary separation) cannot be contributed to the TSP. Contributions to your account can only be made through payroll deductions.

The Miracle of Compounding

When you put your money in the TSP, you experience the miracle of compounding. Money that is contributed to your account accrues earnings over time — then those earnings accrue more earnings, which then accrue more earnings, and so on. This is known as **compounding**. The more you put in, and the longer it stays in your account, the more you can gain from compounding.

The way to tap the power of compounding is to put time on your side: **start early**. Getting an early start makes a dramatic difference to your account. Consider a hypothetical FERS employee who earns $33,000 a year during a 40-year Federal career. You may find it hard to believe, but if the employee contributes to his account from age 25 to 35 **and then stops**, he will end up with more money in his account at age 65 than an employee who starts to contribute at age 35 and contributes **every year for the next 30 years** until retirement at age 65. Figures 1 and 2 show how this happens and compare the account's performance assuming annual rates of return of 8 percent and 10 percent, compounded monthly.*

Figure 1



In the first scenario (Figure 1) where the employee only contributes for 10 years and then stops, $43,000 in employee and agency contributions grows to an account balance of $1,185,000 (assuming a 10 percent rate of return). However, in the second scenario (Figure 2), where the same employee starts later but contributes for 30 years, $102,000 in employee and agency contributions results in a much smaller account balance — $737,000 (again assuming a 10 percent rate of return). This significant difference is due to the greater length of time that the money was accruing earnings in the first scenario.

Of course, the employee who starts early and continues to contribute during his entire career can accrue even more. The more money you put in, the more it grows. If our hypothetical employee contributes

* Over the past 30 years, the compound annual rate of return for securities such as those in the G Fund has averaged 8.21 percent, and the compound annual rate of return for securities such as those in the C Fund has averaged 10.46 percent. However, there is no assurance that these rates of return will be repeated in the future.

(Continued on page 2)

Participants Ask

Q When does the "early withdrawal penalty" apply?

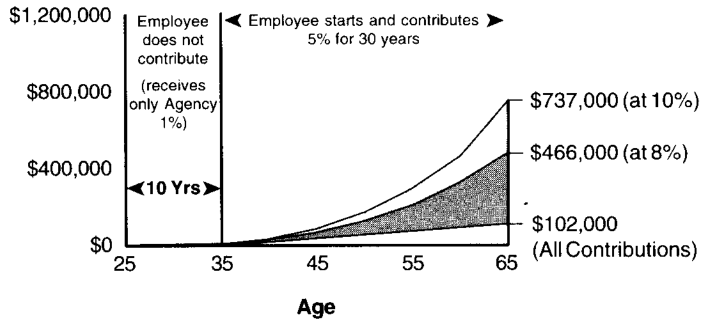
A If you separate or retire **before the year in which you turn 55**, you may be subject to an IRS early withdrawal penalty tax of 10 percent on any amount that you receive directly from the TSP before age 59½. This is in addition to the ordinary income taxes you will owe on money you withdraw from this tax-deferred plan. However, the 10 percent penalty is not imposed on money rolled over or transferred directly to an IRA or other eligible retirement plan, or on annuity payments, payments calculated by the TSP using the IRS life expectancy tables, payments made to participants who leave under disability retirement, payments made under court orders, or payments made because of death.

If you separate or retire **during or after the year in which you turn 55**, any amounts you receive directly from the TSP are not subject to the early withdrawal penalty. In addition, regardless of your age, the penalty does not apply to TSP payments that are rolled over or go directly to an IRA or other eligible retirement plan. However, if you transfer or roll your payment over to an IRA and withdraw it later, the penalty tax will apply to any payments you receive from the IRA before age 59½, even if you separated during or after the year in which you turned 55.

Before you withdraw your TSP account, ask your agency or the TSP Service Office for the most recent tax notice to make sure you understand all the implications of your choice. You may also wish to consult a tax advisor.

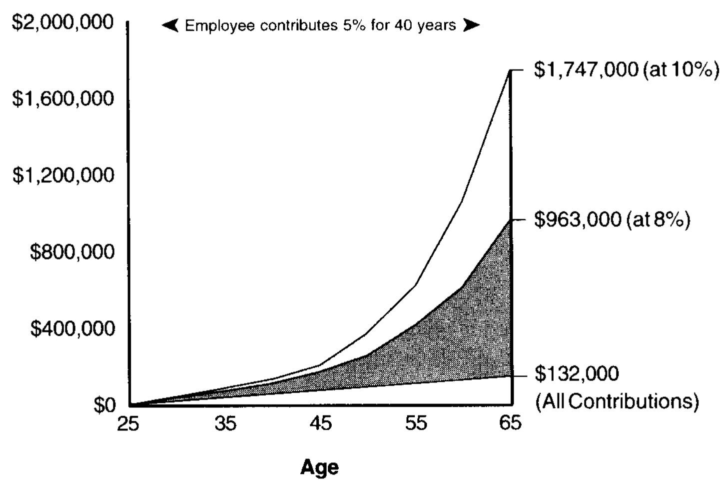
Compounding *Continued from page 1*

Figure 2



5 percent of his pay for 40 years and receives an additional 5 percent in total agency contributions (automatic and matching), his TSP account will reach even more impressive numbers. Figure 3 illustrates the employee's account balance at both 8 percent and 10 percent rates of return. At an assumed 10 percent rate of return, the employee has an account balance of $1,747,000. Of this amount, the combined employee and agency contributions totalled $132,000. The rest, $1,615,000, is the compounded earnings!

Figure 3



The size to which your account can grow also depends upon the performance of the funds in which your account is invested. In the example above, an assumed 8 percent rate of return resulted in an account of $963,000, compared to $1,747,000 at a 10 percent rate of return. Depending upon your investment choices, you may be able to increase your rate of return and, consequently, your compound earnings. Keep in mind, however, that typically, the greater the potential rate of return of the investment, the greater the risk of loss. On the other hand, being too cautious can substantially diminish the purchasing power of your account, when you consider that taxes and inflation will eat away a portion of your account. For further discussion of the advantages and risks of the three TSP funds, see pages 13 – 20 of the *Summary of the Thrift Savings Plan for Federal Employees.*

There are three important points to remember if you want to take advantage of compounding: First, start early; second, if FERS, contribute at least enough to get all of the agency match; and third, make sure your investments reflect your decisions about growth and risk.

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 minimized 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 ten years for G Fund related securities, based on the monthly rates (compounded) for such securities. It also shows the actual 1988 – 1993 G Fund rates of return, after deducting administrative expenses of the Plan. Plan expenses reduced the 1993 return by 0.12%, or $1.20 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
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%
1993	6.14%	6.23%
1988 – 1993 compound annual rate of return	8.00%	8.16%
1984 – 1993 compound annual rate of return		9.03%

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.

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 ten years. It also shows the 1988 –1993 C Fund rates of return (after deducting expenses). TSP administrative expenses and C Fund investment management fees reduced the 1993 C Fund return by 0.13%, or $1.30 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*
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%
1993	10.13%	10.10%	9.99%
1988 – 1993 compound annual rate of return	14.06%	14.85%	14.90%
1984 – 1993 compound annual rate of return		14.97%	14.93%

** 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 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 ten years. It also shows the 1988–1993 rates of return for the F Fund (after deducting expenses). TSP administrative expenses and F Fund investment management fees reduced the 1993 F Fund return by 0.14%, or $1.40 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.

TSP Accounts as of 3/31/94

G Fund	$ 15.6 billion
C Fund	$ 4.8 billion
F Fund	$ 1.5 billion
Total accounts	$ 21.9 billion

Table 3

Year	F Fund	Wells Fargo U.S. Debt Index Fund*	LBA Bond Index**
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%
1993	9.52%	9.74%	9.75%
1988 – 1993 compound annual rate of return	9.59%	10.69%	10.71%
1987 – 1993 compound annual rate of return		9.48%	9.53%
1984 – 1993 compound annual rate of return			11.85%

* *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.*

*** *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.*

Table 4

Month	G Fund	C Fund	F Fund
1993			
April	0.51%	–2.39%	0.67%
May	0.51%	2.66%	0.10%
June	0.51%	0.32%	1.79%
July	0.49%	–0.38%	0.55%
August	0.49%	3.78%	1.72%
September	0.45%	–0.76%	0.26%
October	0.47%	2.04%	0.38%
November	0.45%	–0.93%	–0.84%
December	0.49%	1.20%	0.52%
1994			
January	0.51%	3.40%	1.33%
February	0.43%	–2.70%	–1.72%
March	0.52%	–4.39%	–2.45%
12 months	6.01%	1.52%	2.24%

TSP Tips

- Make sure your **TSP Service Computation Date** is correct on your Participant Statement, especially if you have transferred agencies or changed personnel/payroll offices.
- **Keep your address up to date** so your statements and notices don't go astray (see instructions at the top of your statement).
- **Transferring to an IRA?** Be sure to use the correct TSP form. The TSP will not accept forms of banks or other institutions, and your request will not be processed.