May 2001

Thrift Savings Plan
HIGHLIGHTS

Open Season: May 15 – July 31, 2001

New TSP Benefits

The TSP is offering three new benefits as the result of legislation passed in 2000:

The TSP's ***contribution limits for FERS and CSRS employees have increased to 11% and 6%***, respectively. The limits will rise by one percent each January until 2006, when they will be eliminated altogether. The annual IRS elective deferral limit ($10,500 for 2001) will remain in effect, however. To increase your contribution amount, submit Form TSP-1 to your agency personnel office during the open season.

Beginning in July, new employees will be eligible to enroll in the TSP within 60 days of being hired. All other Federal employees are eligible to enroll during this or any subsequent open season. The usual waiting periods still apply for Agency Automatic (1%) and Agency Matching Contributions.

Starting in July 2001, ***you will be able to transfer money into the TSP*** from qualified retirement plans (including pension, profit-sharing, stock bonus, and 401(k) plans) and conduit IRAs set up specifically to accept distributions from qualified retirement plans. Transfers *will not* be accepted from regular IRAs, "Roth" IRAs, mutual funds, or savings accounts. Money transferred into the TSP will not be subject to the IRS annual elective deferral limit.

Updated Information. For details on all of these benefits, read the revised *Summary of the Thrift Savings Plan for Federal Employees* (5/2001).

Two New Funds — Are they for you?

You might be wondering whether the two new stock funds are right for you. Are you ready to jump in? Keep in mind that all stock markets can be volatile and that past returns are no guarantee of future performance. Investing in stocks is not for everyone, and you should assess your needs and circumstances before you decide to move money into the TSP's new small capitalization and international funds. First, become an informed investor.

What is the S Fund? The Small Capitalization Stock Index Investment (S) Fund is invested in a Wilshire 4500 index fund which tracks the performance of the overall U.S. stock market, excluding the stocks of companies that are in the S&P 500 index. The Wilshire 4500 index represents approximately 21% of the market value of the U.S. stock markets (the S&P 500 index represents approximately 77%). Thus, the S Fund and the C Fund together cover virtually the entire U.S. stock market.

What is the I Fund? The International Stock Index Investment (I) Fund is invested in a Europe, Australasia, and Far East (EAFE) stock index fund. The EAFE index consists of the stocks of companies in 20 (soon to be 21) countries representing 45% of the value of world stock markets. For each country in the index, the stocks selected represent 60% of that country's total stock market value. Read the *Summary of the Thrift Savings Plan for Federal Employees* for upcoming changes to this index.

What are the benefits of investing in these funds? The S and I Funds give participants the opportunity to diversify their investments into the broader domestic and international markets and to earn the relatively high investment return that stocks can provide over the long term. Because they are funds that invest in a broad range of stocks, the effect of individual stock or industry losses on overall investment returns is reduced.

What are the risks of investing in these funds? Both of these funds tend to be more volatile than the C Fund. Generally, the smaller companies in the S Fund are more vulnerable than large companies to changes in overall economic conditions. In addition, the international stocks in the I Fund are affected by fluctuations in the value of the U.S. dollar relative to other currencies. As with the C and F Funds, the total return in the S and I Funds could be negative, resulting in a loss.

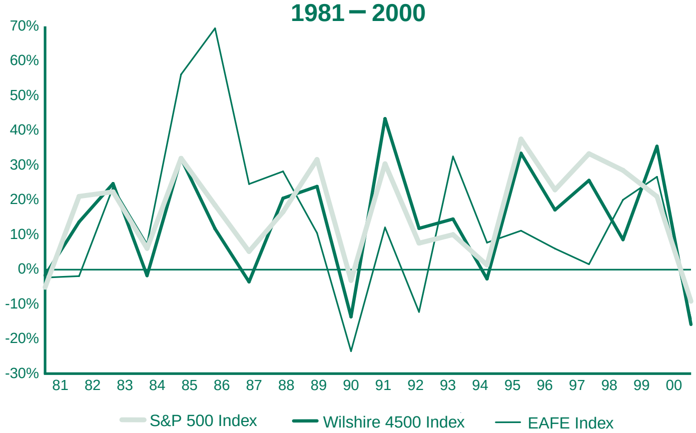
Should I invest in these funds? Review the information in the charts on the next page and consider your own needs and circumstances.

(Continued on page 2)

Two New Funds — Are they for you? *(Continued from p. 1)*

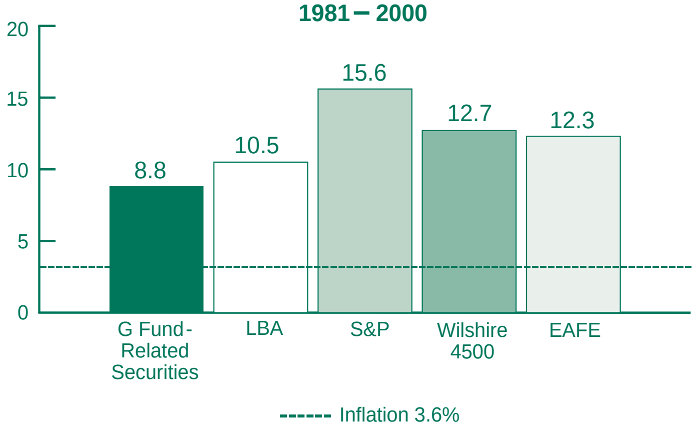
The first chart shows the volatility of the three TSP stock indexes over the past 20 years. You need to consider your level of comfort with the risks associated with these index funds. Your own investment time horizon may also influence your answer. If you are a young investor, you will have time to recover from the occasional drops in the markets; if you are close to retirement and you will be needing your money in the near future, you may choose to minimize your exposure to risk by reducing your investments in the more volatile stock markets. You should also consider the diversification of your non-TSP investments and other assets to get an overall picture of your exposure to risk in the various stock markets.

TSP-Related Indexes 1981 – 2000



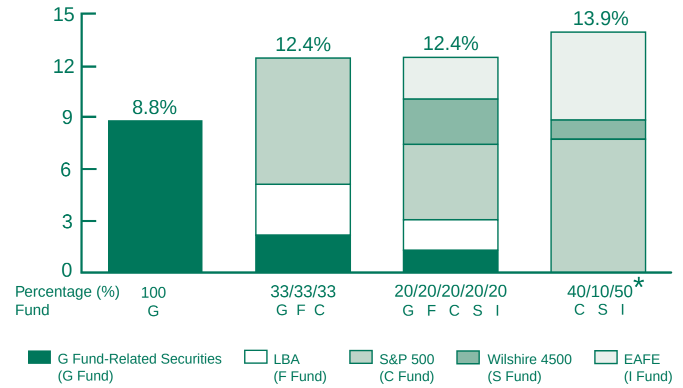
The second chart displays the past 20-years' compound annual rates of return for the five TSP fund indexes compared with the average rate of inflation over the same period. All five indexes exceeded the rate of inflation during this period, but some performed better than others. Keep in mind that if you are too cautious in your investment choices, you incur the risk of losing a substantial portion of your returns to inflation.

Compound Annual Rates of Return and Inflation 1981 – 2000



The third chart compares the 20-year compound annual rates of return for several investment mixes. The most conservative investor who placed her entire account balance in the G Fund would have had a rate of return of 8.8%. An investor who split her account evenly among the G, F, and C Funds would have seen a significantly higher return (12.4%). The investor who evenly split her account among the five funds would have had the same return. Finally, the investor who placed all of her money in the three stock index funds (C, S, and I Funds) would have achieved the highest return (13.9%).

Selected Portfolio Returns 1981 – 2000



* This portfolio approximates the relative market capitalizations of the stocks constituting the S&P 500, Wilshire 4500, and EAFE indexes, respectively.

You should periodically review your investment strategy in light of changes in your needs and circumstances, your tolerance for risk, your time horizon until retirement, your projected retirement needs, and your other sources of retirement income. You should then decide whether you want to change the proportions you are investing in each of the TSP funds.

How do I invest in these funds? You can change the way your money is invested in two ways: by making a contribution allocation or an interfund transfer. A **contribution allocation** affects all new money coming into your account, including payroll contributions, loan payments (if applicable), and any transfers you make into the TSP from qualified retirement plans. A contribution allocation stays in effect until you change it. The existing balance in your account is not affected by your contribution allocation. To redistribute your existing account balance among the funds, you must make an **interfund transfer**.

How do I make a contribution allocation or an interfund transfer? You can make your request on the TSP Web site at **www.tsp.gov**, on the ThriftLine at **(504) 255-8777**, or using **Form TSP-50**, Investment Allocation, which is available from your personnel office.

The Web site and the ThriftLine are the most efficient ways to make your request. Contribution allocations are ordinarily posted to your account within 2 business days after the request is received. Interfund transfer requests are processed monthly. A confirmation notice will be mailed to you for both types of transactions.

Thrift Savings Plan Investment Information

The Federal Retirement Thrift Investment Board manages the G Fund investments. The Board has contracts with Barclays Global Investors to manage the F, C, S, and I Fund investments. The S and I Funds are now available to TSP participants.

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. However, G Fund rates of return may well be lower than those of the other TSP funds over the long term.

Table 1 presents the 1991 – 2000 G Fund total rates of return, after deducting TSP administrative expenses; there is no assurance that future rates of return for the G Fund will replicate any of these rates. TSP administrative expenses reduced the 2000 G Fund return by 0.05%, or $.50 for every $1,000 of G Fund account balance.

Table 1

Year	G Fund
1991	8.1%
1992	7.2%
1993	6.1%
1994	7.2%
1995	7.0%
1996	6.8%
1997	6.8%
1998	5.7%
1999	6.0%
2000	6.4%
1991 – 2000 compound annual rate of return	6.7%

The F Fund is invested in the Barclays U.S. Debt Index Fund, a commingled fund that tracks the Lehman Brothers U.S. Aggregate (LBA) bond index. This index consists primarily of high-quality fixed-income securities representing the U.S. Government, Federal agencies, mortgage-backed, corporate, and foreign government sectors of the U.S. bond market. The F Fund offers the opportunity for increased rates of return relative to the G Fund over the long term, especially in periods of generally declining market interest rates. At such times, the values of the longer-term bonds held in the F Fund should increase, unlike those of the short-term securities held in the G Fund. Unlike the G Fund, the F Fund carries credit risk and market risk. Like the C, S, and I Funds, the F Fund has the potential for negative returns, which could result in a loss.

Table 2 shows the 1991 – 2000 total rates of return for the F Fund (after deducting expenses) and the LBA bond index; there is no assurance that future F Fund rates of return will replicate any of these rates. TSP administrative expenses and F Fund investment management fees reduced the 2000 F Fund return by 0.07%, or $.70 for every $1,000 of F Fund account balance.

Table 2

Year	F Fund	LBA Bond Index
1991	15.7%	16.0%
1992	7.2%	7.4%
1993	9.5%	9.8%
1994	– 3.0%	– 2.9%
1995	18.3%	18.5%
1996	3.7%	3.6%
1997	9.6%	9.7%
1998	8.7%	8.7%
1999	– 0.8%	– 0.8%
2000	11.7%	11.6%
1991 – 2000 compound annual rate of return	7.9%	8.0%

The C Fund is invested in the Barclays 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 can provide over the long term, while lessening the effect that the poor performance of an individual stock or industry will have on overall investment performance. The primary source of earnings is the net changes in the prices of stocks, although dividend income is also an important source of earnings. The risk of investing in the C Fund is that the value of stocks can decline sharply. The total C Fund return could be negative, resulting in a loss.

Table 3 shows the 1991 – 2000 total C Fund rates of return (after deducting expenses) and the S&P 500 stock index returns; there is no assurance that future rates of return for the C Fund will replicate any of these rates. TSP administrative expenses and C Fund investment management fees reduced the 2000 C Fund return by 0.06%, or $.60 for every $1,000 of C Fund account balance.

Table 3

Year	C Fund	S&P 500 Index
1991	30.8%	30.5%
1992	7.7%	7.6%
1993	10.1%	10.1%
1994	1.3%	1.3%
1995	37.4%	37.6%
1996	22.8%	23.0%
1997	33.2%	33.4%
1998	28.4%	28.6%
1999	21.0%	21.0%
2000	– 9.1%	– 9.1%
1991 – 2000 compound annual rate of return	17.4%	17.5%

(Continued on page 4)

The S Fund (Small Capitalization Stock Index Investment Fund) will be invested in the Barclays Extended Market Index Fund, which tracks the Wilshire 4500 stock index. The Wilshire 4500 index represents approximately 21% of the market value of the U.S. stock markets. It consists of the stocks that are actively traded in the U.S. stock markets, except those in the S&P 500 index. The primary source of earnings is the net changes in the prices of stocks, although dividend income is also an important source of earnings. Although the S Fund will be diversified among industries and companies, losses will occur if and as the value of the Wilshire 4500 index declines in response to changes in overall economic conditions. The Wilshire 4500 index returns tend to fluctuate more than S&P 500 index returns because the prices of the stocks of the smaller companies in the Wilshire 4500 index tend to react more strongly (positively and negatively) to changes in the economy. Therefore, S Fund investments are expected to be more volatile than C Fund investments. The total S Fund return could be negative, resulting in a loss.

The I Fund (International Stock Index Investment Fund) will be invested in the Barclays EAFE Index Fund, a commingled fund that tracks the Europe, Australasia, and Far East (EAFE) stock index. The EAFE index, comprising 20 (soon to be 21) countries, consists of the stocks of companies that are large relative to the size of the stock markets of their countries and industries. They represent 45% of the value of the world stock markets. (The U.S. stock market represents 48% of the world stock markets.) The primary source of earnings is the net changes in the prices of stocks, although, at times, net foreign currency changes relative to the U.S. dollar can be a greater component of earnings than stock price gains or losses. Dividend income is also an important source of earnings. The EAFE index is broadly diversified among countries and industries, so that the effect of poor performance in one stock market or group of companies is reduced. Losses will occur if and as the value of the EAFE index declines in response to changes in overall economic conditions or to increases in the value of the U.S. dollar relative to the currencies in which the EAFE stocks are denominated. EAFE index returns tend to fluctuate more than S&P 500 index or Wilshire 4500 index returns; therefore, I Fund investments are expected to be more volatile than C or S Fund investments. The total I Fund return could be negative, resulting in a loss.

Table 4 shows the 1991 – 2000 total rates of return for the Wilshire 4500 index and the EAFE index.

Table 4

Year	Wilshire 4500 Index	EAFE Index
1991	43.5%	12.2%
1992	11.9%	– 12.2%
1993	14.6%	32.7%
1994	– 2.7%	7.8%
1995	33.5%	11.3%
1996	17.2%	6.1%
1997	25.7%	1.5%
1998	8.6%	20.1%
1999	35.5%	26.7%
2000	– 15.8%	– 14.2%
1991 – 2000 compound annual rate of return	15.9%	8.2%

Recent Performance of the G, F, and C Funds

Table 5 presents the monthly rates of return of the three current TSP funds (after expenses), which were used in crediting earnings to your account. For more information about the G, F, and C Funds, see the Plan Summary.

Table 5

Month	G Fund	F Fund	C Fund
2000			
April	0.5%	– 0.3%	– 3.0%
May	0.5%	0.0%	– 2.0%
June	0.5%	2.1%	2.4%
July	0.5%	0.9%	– 1.6%
August	0.5%	1.5%	6.2%
September	0.5%	0.6%	– 5.3%
October	0.5%	0.7%	– 0.4%
November	0.5%	1.6%	– 7.9%
December	0.5%	1.9%	0.5%
2001			
January	0.5%	1.7%	3.5%
February	0.4%	0.9%	– 9.1%
March	0.5%	0.5%	– 6.3%
12 months	6.1%	12.6%	– 21.6%

★ TSP Fund Balances ★

as of 3/31/2001

G Fund	$35.5 billion
F Fund	$ 5.4 billion
C Fund	$52.4 billion
Total	$93.3 billion
Participants	2.5 million

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