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Chapter: 84, Federal Employees' Retirement System, Subchapter III, Thrift Savings Plan
Bulletin: 90-26, Legislative and Policy Changes to the Thrift Savings Plan (TSP)
Date: September 6, 1990
To: TSP Payroll Office Representatives
TSP Personnel Office Representatives
TSP Automated Data Processing Representatives

Public Law 101-335 (H.R. 2514), enacted July 17, 1990, makes a number of significant changes to the Thrift Savings Plan (TSP). The Federal Retirement Thrift Investment Board (Board) will be issuing regulations and detailed information to agencies to implement these changes. In addition, the Board will be issuing a revised *Summary of the Thrift Savings Plan for Federal Employees* and the *Open Season Update—November 15, 1990 to January 31, 1991*, to explain these changes to participants. This bulletin summarizes the legislative changes to the TSP and describes other TSP policy changes that will be effective in January 1991.

I. Payment of Lost Earnings

Public Law 101-335 requires employing agencies to pay earnings lost by participants due to certain administrative errors made by employing agencies in carrying out TSP responsibilities. The law does **not** authorize agencies to pay any lost earnings attributable to employee contributions that were not deducted from an employee's paycheck. However, if the employee makes up the contributions, the agency must pay lost earnings on the Agency Matching Contributions.

The provision in Public Law 101-335 requiring agencies to pay lost earnings is retroactive to the beginning of the TSP and will be implemented early in 1991. The Board will issue regulations implementing the lost earnings legislation. TSP bulletins providing implementation instructions will also be issued later this year.

II. Removal of Investment Restrictions

Public Law 101-335 removes the restrictions on the way that participants covered by the Federal Employees' Retirement System (FERS) may allocate their contributions and existing TSP account balances among the Government Securities Investment (G) Fund, the Common Stock Index Investment (C) Fund, and the Fixed Income Index Investment (F)

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Fund. It also allows participants covered by the Civil Service Retirement System (CSRS) to invest their contributions and existing TSP account balances in the three TSP investment Funds¹.

A. FERS Participants

Currently, FERS participants may invest a portion of their own contributions in the C and/or F Funds and are required to invest all of their agency contributions in the G Fund. Beginning in January 1991, FERS participants may allocate all or any portion of future contributions to their accounts to any of the TSP investment Funds; this includes agency contributions as well as their own. The allocation election will apply to all sources of future contributions; that is, the allocation election will apply to future employee, Agency Automatic (1%), and Agency Matching Contributions. FERS participants may not make one allocation election for employee contributions and a separate allocation election for agency contributions.

Effective the first full pay period in January 1991, previous elections made by FERS participants on Form TSP-1 will be invalid if the participants allocated their contributions to the C and/or F Funds. This is because the previous election applied only to employee contributions. Future allocation elections on Form TSP-1 will apply to all contributions, including agency contributions. Therefore, FERS participants who are currently investing a portion of their own contributions in the C and/or F Funds and wish to continue investing in the C and/or F Funds, must submit a new Election Form (TSP-1) to their agency employing office so that it is accepted before the first full pay period in January 1991. If a new Form TSP-1 is not received and processed by the agency employing office before the first full pay period in January 1991, the agency payroll office will be required to report all contributions (i.e., employee, Agency Automatic (1%), and Agency Matching) to the National Finance Center (NFC), the Plan's recordkeeper, as if the participant elected those contributions to be invested in the G Fund. **Note:** These participants may make elections using Form TSP-1 later in the open season (or in subsequent open seasons) to supersede this default.

All employees may, as in all other open seasons, submit Form TSP-1 to their employing agencies through January 31, 1991.

The Board will be sending a letter about this requirement to FERS participants who are contributing to the C and/or F Funds. However, agency employing offices should also notify all FERS participants who are contributing a portion of their employee

¹FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent retirement plans.

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contributions to the C and/or to F Funds that they must submit a new Form TSP-1 if they wish to continue to invest in these Funds. They must be informed that any new election will apply to all future contributions (employee, Agency Automatic (1%), and Agency Matching Contributions).

FERS participants may also choose to invest all or any portion of their existing TSP account balances, including all of the employee, Agency Automatic (1%), and Agency Matching Contributions and the associated earnings, among the three investment Funds through the interfund transfer process. The new interfund transfer policy is described in Section V.A.

B. CSRS Participants

Beginning in January 1991, CSRS employees may choose to allocate all or any portion of their future contributions to any of the three investment Funds. In addition, CSRS employees may also choose to invest all or any portion of their existing TSP account balances in the three investment Funds through the interfund transfer process, as described in Section V.A.

III. Automatic Cashouts of Vested Account Balances of \$3,500 or Less

Public Law 101-335 provides that participants who separate from Federal service with vested account balances of \$3,500 or less will automatically receive their accounts in a single payment, unless, upon separation, they select withdrawal options for which they are eligible or they elect to defer their withdrawals until a later date. These automatic cashouts will be made regardless of the separating participant's retirement eligibility.

In addition, Public Law 101-335 provides that spousal notification or consent will not be required for automatic cashouts or other withdrawals when the vested account balances at disbursement are \$3,500 or less.

The automatic \$3,500 cashout will be implemented in early 1991. Some of the withdrawal forms will be revised, and we will issue a TSP bulletin describing the new withdrawal procedures in detail.

IV. TSP Annuity Changes

Public Law 101-335 exempts TSP annuities from state and local premium taxes. TSP annuities purchased after August 16, 1990, are exempt from all state and local premium taxes. Previously, there were six jurisdictions that imposed such a premium tax on the purchase of annuities: Alabama, California, the District of Columbia, Kentucky, Puerto Rico, and West Virginia.

V. Other Plan Changes

A. Interfund Transfers

1. Number of Interfund Transfers Per Year

Beginning in January 1991, all TSP participants may make an interfund transfer up to four times in any calendar year, in any months that they choose. The annual limit is reached after four interfund transfer requests have been made effective during the calendar year.

All participants have this opportunity regardless of whether they are covered by CSRS or FERS and, if FERS, regardless of whether they have made or are making employee contributions. Interfund transfers will affect the participant's entire account balance (employee, Agency Automatic (1%), and Agency Matching Contributions, and all of the earnings on these contributions).

2. Distribution of Form TSP-30, Interfund Transfer Request

All FERS and CSRS participants will receive Form TSP-30 with their November 1990 Participant Statements. Form TSP-30 will no longer have pre-printed participant information on it. Participants who submit an interfund transfer request will receive another Form TSP-30 along with Form TSP-31, Confirmation of Interfund Transfer. Participants may also request Form TSP-30 by calling the TSP Inquiry Line². In addition, the Board will distribute these forms to agencies in early 1991 so that participants can obtain them from their employing offices. As before, participants will submit Forms TSP-30 directly to the TSP Service Office at the address on the form. Agencies will not be responsible for processing interfund transfer forms.

A TSP bulletin on the new interfund transfer procedures will be issued by December 1990.

B. Change in the F Fund Investment Policy

Effective January 1, 1991, the F Fund, which is currently invested in a commingled Shearson Lehman Hutton Government/Corporate bond index fund, will be invested in either a commingled Salomon Brothers Broad Investment Grade (SBBIG) or

²In order to use the TSP Inquiry Line to request a Form TSP-30, the participant must have his or her social security number and the personal identification number, which is printed on the Participant Statement, and must use a touch-tone telephone. The telephone number for the TSP Inquiry Line is (Commercial) **504-255-8777**.

Shearson Lehman Hutton Aggregate (SLHA) bond index fund. The broader SBBIG and SLHA indexes include mortgage-backed securities guaranteed by the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association. Adding mortgage-backed securities to the F Fund will provide F Fund investors with greater diversification with respect to the U.S. fixed-income market. The revised *Summary of the Thrift Savings Plan* will contain a detailed discussion of the SBBIG and SLHA indexes and mortgage-backed securities.


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