



National Association of State Retirement Administrators

Social Security Issue Brief

Overview of the Thrift Savings Plan for Federal Employees

Analysts and policymakers have suggested that the Federal Thrift Savings Plan (TSP) may serve as a model for proposed Social Security personal accounts. The President's Commission to Strengthen Social Security (CSSS) cited the TSP as a model for governance and administration of a new Social Security plan that includes personal accounts.

What is the TSP?

The TSP is a voluntary, supplemental defined contribution retirement savings plan for civilian and uniformed federal employees. The TSP functions much as a 403(b) or 457 plan for state and local government workers, and is administered by the [Federal Retirement Thrift Investment Board](#), an independent federal agency. Board members serve in a fiduciary role, appointed by the president with the consent of the U.S. Senate. As of December 31, 2004, combined TSP assets were \$152 billion, with approximately 3.4 million participants. The TSP is the nation's largest defined contribution plan.

TSP Contributions and Investment Options

Most federal employees may contribute up to 15 percent of annual pay to their TSP account, up to \$14,000 in 2005. This limit is based on the same EGTRRA provisions—passed by Congress in 2001—that apply to non-federal employees. The federal government—as employer—contributes one percent of pay to each employee's account, and matches each employee's contributions up to five percent.

One notable feature of the TSP is the simplicity of its investment options. Unlike most defined contribution plans, which typically offer a larger number of investment choices, the TSP offers just five, with a sixth option scheduled to be available in summer of 2005. These options are:

- Government Securities (G) Fund, invested in short-term nonmarketable U.S. Treasury securities guaranteed by the U.S. Government;
- Fixed Income Index (F) Fund, invested in a Lehman Brothers U.S. Aggregate bond index fund;
- Common Stock Index (C) Fund, invested in a Standard & Poor's 500 (S&P 500) stock index fund;
- Small Capitalization Stock Index (S) Fund, invested in a Wilshire 4500 stock index fund. The Wilshire 4500 index consists of the stocks of the companies which are actively traded in the U.S. stock markets, excluding the companies in the S&P 500 index; and
- International Stock Index (I) Fund, invested in a Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) stock index fund. The EAFE index consists of the stocks of companies in 21 countries representing 42% of the value of world stock markets.

A 6th fund, the Lifecycle (L) Fund, will become available in Summer 2005. The L fund will allocate investments among the other fund options on the basis of the participants' age. Allocations will adjust automatically in individual accounts as the participant moves closer to retirement age, relieving participants of the burden of adjusting their asset allocation as they grow older.

TSP Payout Options

TSP payout options function just as a typical 401(k) plan: participants who are eligible for retirement may annuitize their assets, set up a schedule of monthly withdrawals, or take their assets as a single lump sum. Annuities are purchased through a commercial annuity vendor on contract with the TSP. The

same rules that govern 401(k) plan withdrawals, including federal taxes and penalties, also apply to TSP participants. TSP participants are allowed to borrow from their account. Whether or not the payout options available to TSP participants would apply to Social Security personal accounts is a policy issue that would be addressed in legislation establishing those accounts. It is unlikely that if personal accounts are approved in a modified Social Security plan, loans would be permitted.

Questions about Using the TSP as a Model for Social Security

Criticism of using the TSP as a model for Social Security revolves chiefly around two points: first, that personal accounts should not be part of Social Security at all; and second, that a program on the scale of Social Security, with more than 150 million contributors, is too large to be compared to TSP's 3.4 million individual accounts.

The issue of including personal accounts in Social Security will be addressed in a separate issue brief.

Establishing and administering personal accounts on a scale as large as Social Security would represent the largest such effort in the history of defined contribution plans. In addition to the large number of working participants (currently over 150 million), every employer in the nation would need to participate. The logistics of collecting and storing contribution data from such a large number of employers, with varying types of media and levels of reporting capability and sophistication, could be daunting.

As evidence that such an administrative feat is attainable, every employer in the nation currently is required to report Social Security earnings information and to transmit employer and employee contributions to the Social Security Administration. Also, since 1998, the Social Security Administration has been distributing an annual benefits statement to every participant.

FERS, CSRS, and Social Security

The TSP supplements the Federal Employees Retirement System (FERS), a defined benefit pension plan covering federal employees hired after 1983. FERS participants also participate in Social Security. Federal workers hired before 1984 participate in the Civil Service Retirement System (CSRS) and do not participate in Social Security.

This brief is for information only and does not represent an endorsement of any policy or proposal.

Additional Resources:

- Thrift Savings Plan Website: <http://www.tsp.gov>
- Analysis: The Federal Thrift Savings Plan: A Model for Social Security Reform, by the National Center for Policy Analysis: <http://www.ncpa.org/pub/ba/ba443/>
- AARP analysis of whether the Federal Thrift Savings Plan is a viable option for Social Security personal accounts: http://research.aarp.org/econ/9909_thrift_savings.html
- Opinion: [The Lesson of Thrift](#), by Donald Luskin writing in the National Review Online