



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

August 11, 2005

The Honorable Jon C. Porter
Chairman
Subcommittee on the Federal Workforce and
Agency Organization

Dear Congressman Porter:

This responds to your letter of July 6, 2005, concerning the Board's impending comprehensive review of Thrift Savings Plan investments. The Federal Retirement Thrift Investment Board appreciates your support and we look forward to cooperating with the Committee as we proceed.

As you know, a fiduciary must exercise the highest degree of skill and care when considering changes to the Plan's investment options. In preparing for this undertaking, the Agency issued a Request For Proposals on April 29, 2005, seeking competitive bids for ongoing expert investment consulting advice. As you may know, fiduciaries of large retirement plans regularly engage consulting assistance on investment matters. This approach places the TSP within the prudent practices of the industry.

Proposals will be evaluated under Federal procurement rules, and we expect to select an investment consultant by September, 2005. Coincidentally, we recently announced the selection of a new Chief Investment Officer, who will begin service on August 15, 2005, and will coordinate the Agency's work on this project.

When engaged, the consultant will perform several functions for the Board, which include:

- reviewing current and potential indexes for use in the existing funds;
- assessing the risks of various investment management practices and arrangements;
- assisting in the public bidding process for the four existing managed funds (providing input on issues such as index management, custody, fees, and securities lending practices); and

- reviewing existing and other available investment options and providing appropriate recommendations concerning new investment funds, if any.

It is premature to determine the form that any of the expert's recommendations resulting from these tasks will take. For the reasons explained below, we currently expect that the tasks will need to be completed in the order listed above. We will inform the Committee when we receive our expert's recommendations in any of these areas. It is not prudent to establish firm deadlines on the completion of each task. For your edification, however, a "tentative" schedule is described below. Since the exchange of this information with your Committee may involve sensitive ongoing procurement information, we have asked the Agency's General Counsel to work with the Committee's Counsel to ensure proper handling of these matters.

The sequence for completing these four tasks is based upon two important business reasons. First, the selection of the indexes for the current funds needs to be done very soon in order to complete the procurement process before our asset management contracts expire beginning next April. Second, the Board's index selections set the stage for the investment review.

The Board has followed this same practice before. In 1990, the Board selected a new index which brought mortgage backed securities into the F Fund for the first time. Investment contracts were competed and made effective in 1991. The Board then conducted a review of the investment universe. It did so knowing that there would no longer be a gap with regard to mortgage backed securities. Because of the new index selected in 1990, they would be included in the TSP's F Fund in the same proportional share as their broad market representation. Mortgage backed securities have now grown to 37 percent of the F Fund.

The review of the investment universe noted above took place between 1992 and 1995. Multiple investment options were examined, resulting in a considered Board decision to seek Congressional approval for the S and I Funds. The legislation authorizing the new funds was formally transmitted to the Congress and subsequently enacted. Systems changes to accommodate the additional fund offerings were made, and these funds were made available to participants in 2001.

While we do not expect the current review to take that long, this previous experience demonstrates that an orderly process was followed and a great deal of care was exercised by the fiduciaries when they considered changes to the Plan's investment options. A similar orderly process and high degree of care should be used in the current situation.

In 2000, the Board selected the Wilshire 4500 Index for the S Fund, which added REIT securities to the TSP for the first time. In the past four years, REIT securities have grown from 4 percent to 8 percent of the S Fund. Additionally, a small number of REIT securities have been added to the S&P 500 Index, which is the index the Board currently uses for the C Fund.

After the Board selects the indexes for the upcoming procurements, the proportions of the various sectors and subsectors will be known for the current TSP funds. At that point, potential gaps (and potential new investments) can be identified.

With regard to timing, the Agency has held preliminary discussions with potential consultants for this project. All agreed with our approach. However, none of the consultants with whom we spoke indicated that the project could be completed in less than one year. While we intend to move forward with dispatch and will certainly share what has been completed with the Committee, we do not expect that we will have all of the information in the time frame that you have requested.

We are also committed to ensuring that our review does not upset other important activities. First among these are the new Lifecycle Funds (L) which we are just now making available to participants. These asset allocation models constitute the most significant investment improvement since the S and I Funds were added. We intend to focus intently on the L Funds rollout this summer and early fall.

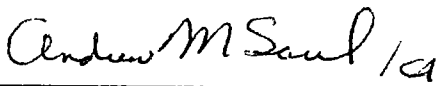
The Board also plans to complete the TSP's first ever competition for record keeping services over the next six months and to transition call center services out of the New Orleans Center, which has provided this service since 1987. When concluded, these efforts will substantially reduce our costs and improve service in this key area.


As with all TSP activities, the costs of these projects are borne by Plan participants. The TSP receives no appropriations of taxpayer funds from the Congress. Thus, the fiduciaries must ensure that all funds are spent prudently and solely in the interest of TSP participants and beneficiaries.

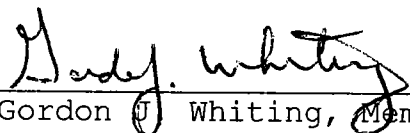
The independent Board members are specifically required by law to develop and establish TSP investment policy. In pursuing these responsibilities, the Board has periodically determined that statutory changes, including new funds, should be considered. When this has occurred, the Board, which is not subject to the President's legislative review process, has submitted its recommendations directly to the Congress for consideration.

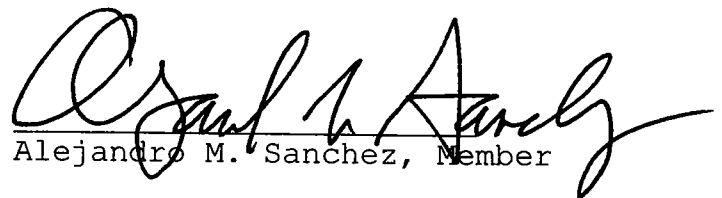
I hope this extensive response including our plans and concerns is useful to the Committee. An identical response is being sent to each of the other Committee leaders who signed the letter. The Board members and the Executive Director are available at your convenience if you would like to further discuss this matter.

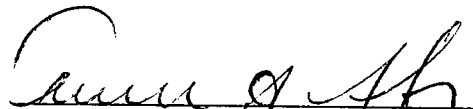
Sincerely,

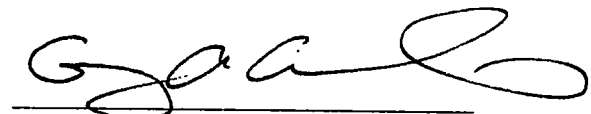

Andrew M. Saul, Chairman


Thomas A. Fink, Member


Gordon J. Whiting, Member


Alejandro M. Sanchez, Member


Terrence A. Duffy, Member


Gary A. Amelio, Executive Director