



Mutual Fund Window Option

Background

- Thrift Savings Plan Enhancement Act of 2009
- May 2014 memo
 - Industry offerings, participant interest, cost & operational concerns
- Additional information requested
 - MFW impact on account retention, fund screening concerns
- Fiduciary decision
 - E.D. Recommendation: Conceptual support – Start planning

Overview



- Results of additional research
- Operational concerns
- Recommendation
- ETAC input

What We Knew

- 45% of participants who separated employment in 2012 withdrew their entire account within the next year. These withdrawals totaled \$10 billion in 2013¹
- Age-based (59 ½) withdrawals represented another \$2 billion in withdrawals

¹ TSP recordkeeping data

What We Learned

We conducted a survey of 30,000 of the 96,500 participants taking a **post-separation** withdrawal in the first half of 2014



36% - life event



27% - withdrawal flexibility



23% - investment flexibility

What We Learned

We also surveyed all 10,200 participants who took an **age-based** withdrawal in the first half of 2014



52% - life event



30% - withdrawal flexibility



23% - investment flexibility

Observations

- Plan-design opportunities
 - More flexible withdrawal options
 - Improved guidance and advice
 - Greater investment flexibility

Hypothetical – If MFW had existed in 2012 and improved retention by just 10%, \$1.2 billion that was withdrawn in 2013, would still be at TSP. This would have equated to much lower fees for the directly affected participants + slightly lower administrative costs for all participants.

Fund Screen

- Not generally used by other defined contribution plan sponsors
- MFW providers typically don't have the ability to mask funds on a plan-by-plan basis
- Expense screen drastically limits the sectors we are most interested in making available
 - Socially responsible
 - Real Estate
 - Emerging markets

Fiduciary Issues

- FERSA protects plan fiduciaries from investment decisions made by participants
- The Board is required to select investments suitable for retirement accounts and with low administrative costs

Fiduciary Issues

- The Board must balance:
 - Participant desire for increased investment choice
 - The impact on MFW choice if a cost screen is applied, and
 - The requirement that funds in the MFW be suitable for accumulating retirement funds

Other Issues

- Platform integration
 - The RFP will require integration with the TSP recordkeeping system
- Implementation Costs
 - As with other new programs, the implementation cost will be spread across all participants
 - Additional fee for those accessing the MFW
- Education
 - We will detail the pros/cons of the MFW and that it is suitable for the sophisticated/do-it-yourself investor

Summary

- The MFW:
 - Is responsive to participant demand
 - Allows greater investment choice
 - Allows participants to invest according to their conscience
 - Fills a small gap in TSP plan design
 - Addresses the needs of the do-it-yourself investor
 - Access to emerging markets and niche funds
 - Protects the simplicity of the TSP
 - Addresses one of the key reasons participants are leaving the plan for higher cost alternatives

Recommendation

- Board adopt a resolution conceptually supporting creating a MFW
- Establish team to create detailed implementation plan, including costs, risks and schedule, and
- Deliver the plan in 2015

Questions

