THRIFT SAVINGS PLAN

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

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MEMORANDUM FOR THE EXECUTIVE DIRECTOR

FROM: GREGORY T. LONG, Director, Office of Product Development
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SUBJECT: Annual Participant Statement

In the fourth quarter of 2003, the TSP moved to a paperless delivery of quarterly participant statements. With the exception of the first statement period after a participant establishes a TSP account, quarterly statements are no longer mailed to participants, instead, they are made available through the account access portion of the TSP website. However, participants may request to receive quarterly statements in the mail. In January 2007, the TSP mailed 367,010 paper statements to participants, which equates to approximately 10 percent of the TSP population. The elimination of quarterly paper statements has produced considerable savings for the plan, estimated at over $7 million in the 2006 calendar year.

While cost savings have been significant, participant survey data suggest that 16% of participants rarely or never review their TSP account. Additionally, almost 10% of surveys were returned as undeliverable, suggesting that we have a similar number of bad addresses in our records. At this time, it is prudent to reevaluate the cost advantages of paperless statements in the light of current concerns regarding participant education, delivery of benefits, account security, possible implementation of automatic enrollment, and notification requirements under the Pension Protection Act (PPA) of 2006. These issues are discussed in the paragraphs that follow. In our opinion, current circumstances, when looked at in the light of the FRTIB's objectives, warrant a change in statement delivery policy. Our proposal for consideration is stated below.

Policy Proposal

Each year in January/February, the TSP should mail an annual statement to all participants that had a balance greater than zero in their account during any period of the preceding calendar year. The statement should be designed as a single page, double-sided document, which provides a summary of account activity during the calendar year. Account transaction detail and history will not be provided. The statement should be sent with the January issue of the *Highlights*. The on-line availability of quarterly statements and the option to request mailing of the same will remain unaffected.

The cost of providing this service is not certain, but initial estimates suggest an annual cost of $2.2 to $2.6 million. If the FRTIB members view this as a beneficial proposal, we will dedicate resources to create a proposed annual statement design and further explore estimated expenses. We will present the proposed statement design and cost figures to the Board members before implementing any changes.

Participant Education, Benefits Delivery, and Account Security

The TSP makes considerable efforts to educate participants regarding plan features and investment options. It collaborates with agency representatives, produces various print materials, maintains an extensive website, and operates two call centers – all of which provide broad and detailed information to participants. Despite these efforts, the TSP may not be reaching the disengaged participant. The participant who does not use the TSP website, has not requested a transaction, and does not receive a paper statement may be unaware of his/her account and its accruing balance. This lack of awareness may result in failure to increase deferral rates or failure to review and rebalance investment portfolios, thus resulting in poor retirement planning.

Furthermore, disengaged participants may leave unpaid benefits in the plan or, worse, allow fraudulent activity on their accounts go undetected. The issuance of an annual participant statement may alleviate these issues by improving understanding of investment options, highlighting portfolio growth, and maintaining regular contact with participants. In addition, the tracking of undeliverable statements will help the TSP identify accounts that may be at risk for unpaid benefits or fraud.

Automatic Enrollment and PPA

The issuance of an annual participant statement will be particularly beneficial if the FRTIB seeks and obtains authority from Congress to implement an automatic enrollment program for the TSP. Automatic enrollment tackles employee inertia and requires the employee to opt out of the plan instead opting into the plan. However, once in the plan, the concern remains that the automatically enrolled employee will become a disengaged participant. The annual statement provides a yearly opportunity to reach out to those participants who did not actively enroll in the plan. It is crucial that the benefits and options of the TSP are emphasized to those participants who may not have understood or appreciated the TSP at the start of their careers and, if uninformed, may continue to do so. It should be noted that in order to "qualify for ERISA preemption, the PPA requires employers to notify employees of their rights and obligations under the automatic enrollment arrangement, including their right to opt out of the arrangement or to elect to have contributions at a different percentage. Employers must give employees a reasonable amount of time, after receipt of the notice and before the first elective contribution is made, to make such election."[1] Additionally the PPA requires a similar notice be provided annually to all automatically enrolled participants. Although the TSP is not subject to ERISA, ongoing notification to these participants remains within the spirit of the PPA, which will be followed by plans in the private sector.

Additionally, under the PPA, there are new benefit statement requirements. "Plans, which provide participants the right to direct their own investments, must provide benefit statements to participants at least once each calendar quarter. Other plans may still provide benefit statements annually. This requirement generally is effective for plan years beginning on or after January 1, 2007."[2] Again, the TSP is not subject to these requirements. However, it is sensible to adopt an

[1] "Pension Protection Act of 2006: Changes for Defined Contribution Plans," *Employee Benefits & Executive Compensation*, pub. Powell Goldstein LLP, December 15, 2006.
[2] Ibid.

approach of increased notification and information that is mandated by PPA and will be followed by other plan sponsors.

Statement Design Considerations

While the previous paragraphs present an argument for mailing participant statements, these arguments must be balanced by cost, efficiency and information adequacy considerations. We considered the option of returning to the practice of mailing statements to all participants quarterly, but costs would greatly exceed that of our recommended policy. Secondly, we considered mailing the standard fourth quarter statement to all participants, but as this provides no data prior to September, 30th, it does not provide an adequacy of information that an annual statement would require. Finally, we considered leaving statement design unchanged, and simply applying it to a 12-month period. However, because some participants have significant account activity, an annual version of the current quarterly participant statement, which provides detail on all contributions and transfers, would result in many statements of extensive length. Therefore, a single page (front and back) statement that provides a summary of annual account activity should be mailed to participants. This annual statement will not replace the quarterly statement that will remain available on the website and via mail if requested. By limiting the statement to a single page, this practice will keep costs to a minimum, but there will be programming costs to implement the new statement design. Nonetheless, the benefits to the TSP participants may make these costs worthwhile.

Cost Factors

The costs involved with delivering an annual statement fall into three categories, systems and programming, printing and production, and postage. Our initial estimates suggest an annual cost of $2.2 to $2.6 million. One additional related cost factor is manpower required to assist with correction of bad addresses that will be associated with returned mail.

If the FRTIB views this proposal as worthy of investigation, we will dedicate resources to better estimate each of these expenses and present them to the Board prior to implementing any changes.