

Legislative Changes to the Thrift Savings Plan

The Thrift Savings Plan Enhancement Act of 2009 (P.L. 111-31, Title I) (Act) was signed into law on June 22, 2009. Its provisions represent the culmination of policy work conducted over the past two years by the Federal Retirement Thrift Investment Board (Agency). Following enactment of the Pension Protection Act of 2006 (allowing similar changes to private sector 401(k) plans), the Agency sent a legislative proposal to the Congress on July 10, 2007, seeking automatic enrollment of Federal employees and members of the uniformed services and authority to change the Thrift Savings Plan (TSP) default fund for new enrollees from the Government Securities Investment (G) Fund to an age-appropriate Lifecycle (L) Fund. Legislation to accomplish these goals (plus others added in the U.S. House of Representatives) was introduced and subsequently passed in the House (H.R. 1108) in the 110th Congress. However, H.R. 1108 was not acted upon by the U.S. Senate before the end of the 110th Congress.

Legislation was re-introduced during the 111th Congress. This new bill, H.R. 1256, which did not include the L Fund default provision, but did include other TSP provisions described below, was approved by the Congress and signed into law by the President on June 22, 2009.

Immediate Agency Contributions

The Act eliminates the waiting period for employees covered under the Federal Employees' Retirement System (FERS) (and equivalent Federal retirement systems) to receive Agency Automatic (1%) and Agency Matching Contributions.

There are two populations of Federal employees affected by this provision: all FERS employees who are newly hired or rehired after the Act was signed, and those FERS employees who, at the time the Act was signed, were currently employed and completing their waiting period to become eligible for agency contributions (i.e., employees hired on or after December 1, 2008).

Under the Act, both groups are now eligible for the Agency Automatic (1%) Contributions. Additionally, if a participant hired on or after December 1, 2008, was already contributing to the TSP, he or she is now eligible to receive the Agency Matching Contributions.

After consultations with human resources and payroll office representatives from the employing Federal agencies, the Agency published an interim final rule in the June 19, 2009 Federal Register. The interim final rule provides that agency contributions for employees who were in the waiting period when the law was signed begin preferably with the first full pay period after the Act was signed into law, but not later than the first full pay period in August 2009.

Thus, by August 2009, all noncontributing FERS participants should have begun to receive the Agency Automatic (1%) Contributions. All contributing FERS participants should have begun to receive both the Agency Automatic (1%) and Agency Matching Contributions.

Automatic Enrollment

The original impetus of the new law was the automatic enrollment provision that was studied and subsequently recommended for legislative action by the members of the Federal Retirement Thrift Investment Board (Board Members). The new law authorizes automatic enrollment for new Federal civilian employees. In deference to concerns within the Department of Defense, the final legislation was amended by the Congress to exclude members of the uniformed services from the automatic enrollment provision. The Agency, in conjunction with Federal employing agencies, expects to implement automatic enrollment for civilians in the spring of 2010.

Spouse Beneficiary Accounts

Currently, spouse beneficiaries of TSP participants must either transfer their TSP death benefit payments to an individual retirement plan or receive the payment in cash. The idea of allowing surviving spouse beneficiaries to simply leave their deceased participant spouse's funds in an account with the TSP (rather than being required to withdraw those balances) was first recommended by a member of the Employee Thrift Advisory Council (Council). The Board Members considered the addition of spouse beneficiary accounts to the TSP at its April 2009 monthly Board meeting. The Board Members voted unanimously to recommend that the Congress authorize the addition of surviving spouse beneficiary accounts. The new law authorizes the Agency to enable spouse survivors to take ownership of a TSP account. The Agency expects to implement this provision early in 2010.

Roth TSP Feature

At its April 2009 monthly meeting, the Board Members considered the addition of a Roth 401(k) feature to the TSP. The Board Members voted 3-1 in favor of recommending that the Congress authorize a Roth 401(k) feature in the TSP.

The new law authorizes adding a TSP Roth 401(k) feature. Participants will be able to contribute after-tax dollars under the TSP Roth 401(k) feature. Like regular TSP contributions, the Roth contributions will grow tax free. However, unlike regular TSP contributions, both the Roth contributions and attributable earnings are tax free when withdrawn.

This feature will require substantial modifications to Federal agency and uniformed service human resources and payroll systems, as well as to the TSP's communications, record keeping, and accounting systems. The addition of a Roth 401(k) feature is a two-year project.

Mutual Fund Window

The Board Members also considered the addition of a mutual fund window at its April 2009 meeting. The Board Members rendered a split decision (2 to 2) on recommending this provision to the Congress. The Council also expressed reservations regarding the mutual fund window.

In recognition of the Board Members' decision to neither support nor oppose this provision, the Congress authorized a mutual fund window in the new law, but does not require its implementation. A mutual fund window would allow TSP participants to invest in a wide range of mutual funds through a provider competitively selected by the Agency. The Agency and Board Members will continue to study and work with the Council on this issue; a decision to implement it would be based on the best interests of the participants and beneficiaries of the TSP.