



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

February 6, 2009

MEMORANDUM FOR THE EXECUTIVE DIRECTOR

FROM: RENEE WILDER, Director, Office of Research and Strategic Planning

SUBJECT: Summary of 2008/2009 TSP Participant Survey

In February, 2009, Watson Wyatt, in coordination with the Office of Research and Strategic Planning completed the second biennial longitudinal survey of TSP participants. The goal of this survey is to better understand participants' needs, attitudes, and satisfaction with the Plan as well as gauge their interest in possible new features under consideration.

In mid-November, 2008, the survey was mailed to over 35,000 randomly selected Federal employees and uniformed services members who have participated in the TSP. Also, for the first time, respondents were given the option to complete the survey online. At the completion of the administration period, the total response rate was 14.3% (approx. 4,900 surveys completed). Of this amount, 68% represented completed paper surveys, with the 32% balance completed online.

It is important to note that during the time the survey was being administered, tremendous uncertainty and volatility was being experienced in the financial markets. During the September to November period, the S&P 500 Index declined more than 35%, the housing market fell into a crisis, and unemployment rates began to spike higher. We believe these factors distracted some participants from completing the survey and more importantly, influenced their perceptions of the TSP and their retirement savings. However, having made that observation, the TSP continues to enjoy very high satisfaction levels with its participants, as will be addressed in more detail below.

Addendum A is the draft version of the report for the 2008/2009 Participant Survey. The final survey report will have minor edits from this version and will be distributed at the Board meeting. The following memorandum summarizes some of the key highlights of the 2008/2009 Participant Survey report.

Overall Satisfaction with TSP and Customer Service

Respondents indicated an 81% favorable rating for overall satisfaction with the TSP and a 75% rating for overall quality of services provided by the TSP. The is slightly down from the 2006 survey, which reflected ratings of 85% and 80%, respectively, however, these levels remain significantly higher than those found in private-sector 401(k) plans, where overall satisfaction ratings are 68%.

On a negative note, only 53% of respondents indicated that the TSP has become a better program over the last two years. This represents a decline of 10% from the prior survey. The decline may be indicative of the market conditions and impact on balances and/or indicate that respondents feel meaningful improvements have not been made to the Plan over the period.

Conversely, respondents reported a high level of satisfaction with their ability to make changes to their accounts, with approximately 80% noting ease in making changes to investment and contribution allocations. This is particularly noteworthy when viewed in the light of the TSP having instituted interfund trading restrictions in 2008.

Further, TSP participants overwhelmingly utilize the Plan's website to access account information, with 86% accessing information online. Only a very small percentage of respondents (3%) indicated that they rely on the ThriftLine for account information, and 37% indicated ever having contacted a service representative regarding their account. Further, 79% noted satisfaction with their ability to access account and general plan information via the TSP web site. The findings on website usage certainly indicate significant reliance on the TSP website by participants and support the Board's current efforts to enhance the site by offering greater information, interactivity, and educational tools.

Withdrawals, Rollovers and Roll-ins

Overall, when participants were asked what they plan to do with their TSP balances when they leave service, half indicated intentions to leave their balances with the Plan. Just over 17% plan to receive monthly payments while 14% indicate intentions to rollover funds to an IRA, and nearly 6% plan to take a single cash payment. Only 2.6% indicated plans to purchase a TSP annuity.

When respondents were asked at what age they plan to withdraw funds from the TSP, many (23.2%) were unsure. However, a similar percentage (22.2%) indicated initiating withdrawals at age 70½, when RMDs are required. As might be anticipated, this preference was more prevalent among CSRS participants (who tend to view the TSP as a supplemental plan) and less so with FERS participants.

Employees who have tax-deferred savings from other employers are eligible to roll these balances in to the TSP. However, only 18% indicated they would consider rolling another account into their TSP account and only 4% indicated they had already done so.

The above results indicate an opportunity for the TSP to specifically provide participants with additional education and information on their withdrawal, rollover and roll-in options. There are some fairly unique advantages of retaining funds in the TSP (i.e. low costs) or rolling other tax-deferred balances into the TSP. It appears that participants may not be fully aware of these options or their advantages.

TSP Participation

The survey reflected that about 93% of FERS employees have contributed to the TSP over the last two years, comparing favorably to the 2006 level of 87.1%. These levels are considerably higher than found in the private sector, where participation rates typically approximate 75% in 401(k) plans. At 80%, FERS respondents overwhelmingly reported the receipt of matching contributions as their top reason for contributing to the TSP.

Among those not currently contributing, the principal reason cited was not having enough money to do so. This is potentially a reflection on the economic environment, as this response increased over the prior survey for FERS, CSRS and uniformed service respondents. However, with the uniformed services, saving in other ways (23%) and the lack of matching contributions (17.5%) were the most cited reasons for not contributing.

Participants were asked what changes to the TSP would encourage more employees to participate. The most commonly cited change, at 69%, was adding immediate matching contributions for new employees and uniformed service members. The next most common factor expected to improve participation (51%) was the addition of automatic enrollment. Respondents did not indicate that other potential benefit changes to the TSP would make as strong an impact on participation levels.

Retirement Income

Nearly one in four FERS participants indicated the TSP as being their primary income source in retirement. In fact, more than two-thirds of FERS participants identify their TSP account as a “top 3” retirement source, which is twice as high as the ranking for the FERS annuity plan.

Approximately 35% of respondents indicated that in retirement they would need 80% or more of their annual income to live comfortably. This expectation is in line with common wisdom of financial planners. However, 36% indicated a retirement need in the 60-79% of income range and 18% believe they can retire comfortably on less than 60% of their annual income. Add to this group 10% of respondents who indicated they could not estimate their retirement need and the result is the TSP has a considerable percentage of participants who either believe they will need less income than financial planners typically recommend, or they are unable to estimate their retirement income needs. This is particularly a concern among participants age 50 and over, where nearly 29% fall into this group.

As the TSP considers adding tax and investment advice, consideration should also be given to expanding the education resources focused on retirement preparedness.

Potential Changes to the TSP

Roth 401 (k): Participants were asked if adding a Roth 401(k) option would make the TSP better. Fifty six percent indicated favorably, while only 10% indicated the addition

would not be an improvement. Further, 42% indicated they would contribute to a Roth, if it were added to the Plan. While the tax advantages of a Roth 401(k) are quite similar to a Roth IRA, only 36% of respondents indicated they have already established a Roth IRA account. This difference might be explained by the income limitation imposed on the Roth IRA. Further, those indicating that the addition might improve the Plan may not necessarily plan to take advantage of the option, if available.

In an effort to gauge respondents understanding of the implications of utilizing a Roth option, respondents were asked how they expected their current tax rate to compare to their tax rate, post-retirement. Thirty nine percent indicated that they expect their tax rate to be lower in retirement, with only 20% noting a higher expected tax rate. Of note, 54% of respondents who expect their tax rate in retirement to be above their current rate say they would take advantage of the tax benefits of the Roth and make a contribution to a Roth 401(k). However, 44% of those expecting their tax rate to remain the same indicated they would contribute and 43% of those indicating an expectation for a lower tax rate in retirement agreed that they would also contribute to a Roth 401(k), even though the contribution would be disadvantageous on a tax basis.

While participants may be interested in the addition of a Roth 401(k) option to the plan, survey results clearly indicate a lack of understanding of the tax implications of contributing to a Roth. Should the option be added to the Plan, the TSP should strongly consider offering participants professional tax advisory services in conjunction with making this investment decision. In that regard, 51% of respondents indicated they would need assistance before making the Roth 401(k) investment decision. Thirty-five percent indicated they would want the TSP to provide this service, at an additional cost to participants (with 30% indicating they would disagree with the addition of this service).

Mutual Fund Window: In response to 46% of respondents indicating on the 2006 survey that the Plan would be improved by offering a wider selection of investment options, participants were asked on the most recent survey if adding a mutual fund window would improve the Plan. Thirty nine percent indicated favorably, while 19% indicated the plan would not be improved by the addition of this feature. Approximately 24% indicated they would transfer a portion of their account balances to access the mutual fund window. However, only 10% indicated a willingness to pay an annual fee of \$100 in order to utilize the mutual fund window.

This result is not inconsistent with experience in private sector 401(k) plans, where utilization of mutual fund windows is generally in the area of 2-5% of plan participants.

Once again, participants indicated the preference for professional advice, as 50% of respondents affirmatively indicated a need for professional investment advice in order to use a self-directed mutual fund window. However, again indicative of their price sensitivity, only 10% noted a willingness to have their account balances charged for this service.

Economic Environment

The survey was administered in the midst of the “meltdown” of the financial markets at the end of 2008. Survey participants were asked how the financial environment was impacting them. At the time of the survey, the most common change indicated by respondents was that they had already or planned to transfer some or all of their account balance into the more conservative G Fund (19% had already taken this action and 16% were considering it). Eleven percent had changed their contribution allocations and 17% were considering doing so. Of note, 23% of respondents were considering talking to a financial advisor or had already done so.

At the time of the survey, only 7% had reduced their TSP contributions and an equal percentage were considering doing so. Similar percentages of participants, or lower, indicated that they had stopped or were considering stopping contributions, while 3-5% indicated they already had or plan to take loans or make a withdrawal from their TSP account.

Summary

Though the turmoil of the financial markets likely influenced TSP participants’ interest in completing the survey and more importantly their perceptions of the retirement program, the TSP continues to enjoy a very engaged participant base, who values the Plan and the investments and services offered by the Plan.

Survey responses support initiatives to implement auto-enrollment and immediate matching. Respondents also expressed interest in adding a Roth 401(k) option and mutual fund window. However, these features should be supported with appropriate education to encourage greater retirement preparedness, enhanced investment education and advice as well as tax counsel, if a Roth 401(k) is made available.