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THE THRIFT SAVINGS PLAN: PUTTING CUSTOMERS FIRST?

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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THE THRIFT SAVINGS PLAN: PUTTING CUSTOMERS FIRST?

THURSDAY, JULY 24, 2003

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Tom Davis of Virginia (chairman of the committee) presiding.

Present: Representatives Tom Davis of Virginia, McHugh, Souder, Lewis, Jo Ann Davis of Virginia, Carter, Blackburn, Waxman, Maloney, Cummings, Kucinich, Davis of Illinois, Tierney, Clay, Watson, Van Hollen, Sanchez, Ruppersberger, Norton, Bell, Moran of Virginia, and Jefferson.

Staff present: Peter Sirh, staff director; Melissa Wojciak, deputy staff director; Keith Ausbrook, chief counsel; John Hunter, David Young, and Randall Kaplan, counsels; David Marin, director of communications; Scott Kopple, deputy director of communications; Teresa Austin, chief clerk; Joshua E. Gillespie, deputy clerk; Jason Chung and Michael Layman, legislative assistants; Leneal Scott, computer systems manager; Christopher Lu, minority deputy chief counsel; Tania Shand and Denise Wilson, professional staff members; Earley Green, minority chief clerk; Jean Gosa, minority assistant clerk; and Cecelia Morton, minority office manager.

Chairman TOM DAVIS. Good morning. A quorum being present, the Committee on Government Reform will come to order.

I ask unanimous consent that Congressman William Jefferson and Congressman Jim Moran be permitted to participate in today's hearing. Without objection, so ordered.

I want to welcome everybody to today's hearing on customer service and the Thrift Savings Plan, a retirement savings and investment plan in which 3 million Federal employees hold accounts worth more than $100 billion. We are here to ensure that customer service for the Plan meets the highest possible standards. We'll examine both the operations of the Plan—especially recent efforts to upgrade service—and oversight of the Plan by the Department of Labor.

To assist the committee in evaluating the Plans, we'll also receive testimony regarding the operation of private plans. On June 16, 2003, the Federal Retirement Thrift Investment Board, the governing body of the Thrift Savings Plan, launched a new recordkeeping system designed to improve service to Plan participants. The goal was to make the TSP operate more like private sector plans by offering features such as online loan applications and

daily rather than monthly account transactions. However, software glitches have caused the new system to be slow and in some cases difficult to access.

Our committee has received numerous calls from Federal employees and retirees that have complained that they have been unable to get loans processed, withdraw money, or transfer funds. As a result, according to these individuals, home purchases have been delayed or ruined and transactions have been misplaced, credited to the wrong fund, or deposited into a different person's account.

Although the TSP Web site, tsp.gov, has accepted an increasing number of transactions since June 16th, participants still spend countless hours trying to access their accounts online. The site now advises users to avoid using the system during the peak times of 8 a.m. to 4 p.m. Instead, it suggests that users log on during the weekends and between midnight and 6 a.m. on weekdays. But what good is a Web site providing access to $113 billion in Plan assets when you have to log on at 3 a.m.? I know I don't make my investment decisions in the middle of the night. I might do a better job of it if I did, but most people don't.

Dissatisfied with the service of the new online system, many have turned to the phone or the mail to conduct transactions. The TSP Service Center has been flooded with calls and has been unable to handle the volume; consequently, few are able to get through to conduct business. Correspondence through the mail is often unsatisfactory, as well.

For all these reasons, customer satisfaction with the new TSP system is low. According to a recent poll by the Federal Times, 50 percent of those responding found the new system to be unusable. Only 6 percent found the new program to be effective.

Let me share some excerpts from letters, phone calls, and e-mails that our office has received from TSP customers. A participant who developed breast cancer requested a hardship withdrawal from her TSP account on June 16th. She calls daily to find out about her application but is always disconnected. As of yesterday, she has been unable to learn the status of her urgent request.

Another individual applied for a loan from his TSP account to pay for his child's college tuition this fall. Following weeks of trying to reach a TSP rep to learn the status of the application, the individual was told that the loan couldn't be processed because he used an old form. The application was downloaded from the TSP Web site in May, and there was no indication that the form was old or expired.

Another participant made a loan request over a month ago in order to buy a home. This person estimates that he spent more than 10 hours on the phone trying to learn the status of his application. He's reached the automated system two times. Once he was transferred to a busy signal and the other time he was disconnected.

Perhaps what is most frustrating to Federal employees is that they have waited for over 6 years for the new system. The Thrift Board first hired American Management System in 1997 to develop a new recordkeeping program, but schedule delays and cost overruns resulted in termination of that contract. The Board then contracted with MATCOM International to develop the system. When

the new Web site opened last month, it immediately suffered technical glitches severely limiting the number of participants who could access their accounts. Too many loan applications and other transactions remained unprocessed after several weeks, including those that were in process on June 16th and had to be resubmitted.

Today we are going to try to understand the reasons for these problems and try to get an idea of when they will be solved. The committee intends to learn where participants can turn when their transactions aren't being processed. We'll also examine whether there's adequate oversight of the management and operation of the TSP program.

Direct management responsibilities fall on the TSP Board and its executive director, who are the fiduciaries of the Plan. Additionally, the Department of Labor has responsibility under the Federal Employees Retirement System Act for conducting audits of the TSP program to ensure that fiduciaries are faithfully carrying out their duties.

We have assembled an impressive group of witnesses to help us understand these issues. We're going to hear from the Federal Retirement Thrift Investment Board and the Department of Labor. We'll also hear from the Department of Agriculture's National Finance Center, which actually performs all the record keeping, account transactions, and loan processing for TSP participants.

In our second panel, we're going to hear from representatives of the Federal Managers Association who will discuss their members' concerns. We'll also hear from TIAA-CREF Retirement Savings Fund that is used by many universities and research institutions and has about 2.6 million participants.

I want to thank all of our witnesses for appearing before the committee and I look forward to their testimony.

[The prepared statement of Chairman Tom Davis follows:]

Statement by Chairman Tom Davis
"The Thrift Savings Plan: Putting Customers First?"
Committee on Government Reform
July 24, 2003

I would like to welcome everyone to today's hearing on customer service and the Thrift Savings Plan, a retirement savings and investment plan in which 3 million federal employees hold accounts worth more than $100 billion dollars. We are here to ensure that customer service for the plan meets the highest possible standards.

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However, software glitches have caused the new system to be slow and difficult to access. Our Committee has received numerous calls from federal employees and retirees who have complained that they have been unable to get loans processed, withdraw money, or transfer funds. As a result, according to these individuals, home purchases have been delayed or ruined, and transactions have been misplaced, credited to the wrong fund, or deposited into a different person's account.

Although the TSP website, tsp.gov, has accepted an increasing number of transactions since June 16, participants still spend countless hours trying to access their accounts online. The site now advises users to avoid using the system during the "peak times" of 8 a.m. to 4 p.m. Instead, it suggests that users log on during the weekends and between midnight and 6 a.m. on weekdays.

But what good is a website providing access to $113 billion in plan assets, when you have to log on at three in the morning? I know I don't make my investment decisions in the middle of the night.

Dissatisfied with the service of the new online system, many have turned to the phone or the mail to conduct transactions. The TSP service center has been flooded with calls and has been unable to handle the volume. Consequently, few are able to get through to conduct business. Correspondence through the mail often yields no response as well.

For all these reasons, customer satisfaction with the new TSP system is low. According to a recent poll conducted by *Federal Times*, 50 percent of those responding found the new system to be **unusable.** Only 6 percent found the new program to be effective.

Let me share some excerpts from letters, phone calls, and emails we've received from TSP customers:

- A participant who developed breast cancer requested a hardship withdrawal from her TSP account on June 16. She calls daily to find out about her application, but is always disconnected. As of yesterday, she has been unable to learn the status of her urgent request.
- Another individual applied for a loan from his TSP account to pay for his child's college tuition this fall. Following weeks of trying to reach a TSP representative to learn the status of the application, the individual was told that the loan could not be processed because he used an old form. The application was downloaded from the TSP website in May, and there was no indication that the form was old or expired.
- Another participant made a loan request over a month ago in order to buy a home. This person estimates that he has spent more than ten hours on the phone trying to learn the status of his application. He has reached the automated system two times. Once he was transferred to a busy signal and the other time he was disconnected.

Perhaps what's most frustrating to federal employees is that they have waited over six years for this new system. The Thrift Board first hired American Management System in 1997 to develop a new record-keeping program. However, schedule delays and cost overruns resulted in termination of that contract. The Board then contracted with MATCOM International to develop the system.

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I would like to thank all of our witnesses for appearing before the Committee, and I look forward to their testimony.

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Chairman TOM DAVIS. I now yield to Mr. Waxman for his opening statement.

Mr. WAXMAN. Thank you very much, Mr. Chairman. I want to thank you for holding this hearing and I want to welcome the witnesses to our committee.

Through the Thrift Savings Plan, 3 million participants are saving for their retirements in tax-deferred accounts, with a portion of their contributions matched by their agencies. Compared to retirement funds in the private sector, the fees that TSP charges its participants are minimal. By many measures TSP has been a great success for Federal employees. Unfortunately, the TSP program has had some serious problems adapting to the Internet age, which is the reason for today's hearing. Most notably, there have been technical glitches on TSP's Web site that have made it difficult for participants to gain access to their accounts. Some of these people needed the money for house loans and I am disappointed to hear about these problems.

Mutual fund companies and other retirement plans across the Nation have been able to set up complex Web sites. I understand the TSP system is complicated by the loan transactions that it must process. However, Vanguard manages $500 billion in assets for 15 million investors, five times as many assets and investors as TSP. Vanguard also has 140 funds, compared to the 5 that TSP has. Yet, Vanguard has had a sophisticated Web site for years.

We're almost 10 years into the Internet revolution, so I am hard pressed to understand why TSP is still having problems.

I'm also interested in learning about the recent settlement of litigation between the TSP Board and a private contractor called American Management Systems [AMS]. This company was hired to improve record keeping on the TSP Web site, but was unable to complete its project. I don't know whether this was due to poor contract management, incompetence on the part of the contractor, or both. I do know that at the end of the day, TSP participants are on the hook for $36 million. That's how much was paid to AMS for work that was poorly performed or not performed at all. That's $36 million that will be deducted from the accounts of TSP participants.

I realize these problems occurred under previous leadership at the TSP Board; however, the problem with AMS highlights the importance of properly managing outside contractors, an issue that this committee is going to be dealing with more and more and more. Even the most professional and efficient contractors need clear instructions and close supervision. The failure to do so in this case resulted in an unfortunate loss for 3 million Federal employees and retirees.

As Congress considers proposals to increase privatization of the Federal Government, the story of how average Americans lost $36 million is worth remembering.

I look forward to hearing what the witnesses have to say on these topics. I hope we learn something so that we don't repeat these problems on an even larger scale in other Governmental contracts.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Hon. Henry A. Waxman follows:]

Statement of Rep. Henry A. Waxman
House Government Reform Committee Hearing on Thrift Savings Plans
July 24, 2003

I'd like to thank the chairman for holding this hearing and welcome the witnesses to our Committee.

Through the Thrift Savings Plan (TSP), three million participants are saving for their retirements in tax-deferred accounts, with a portion of their contributions matched by their agencies. Compared to retirement funds in the private sector, the fees that TSP charges its participants are minimal. By many measures, TSP has been a great success for federal employees.

Unfortunately, the TSP program has had some serious problems adapting to the Internet age, which is the reason for today's hearing. Most notably, there have been technical glitches on TSP's website that have made it difficult for participants to gain access to their accounts. Some of these people needed the money for house loans. I am disappointed by these problems.

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I realize these problems occurred under previous leadership at the TSP board. However, the problem with AMS highlights the importance of properly managing outside contractors. Even the most professional and efficient contractors need clear instructions and close supervision. The failure to do so in this case resulted in an unfortunate loss for three million federal employees and retirees. As Congress considers proposals to increase privatization of the federal government, the story of how average Americans lost $36 million is worth remembering.

I look forward to hearing what the witnesses have to say on these topics. Thank you.

Chairman TOM DAVIS. Mr. Moran, I understand you have to run to another committee. We had you originally on, so I'll recognize you now.

Mr. MORAN. Sure. Thank you very much, Mr. Chairman. The appropriations bill that handles Federal employee pay and so on is being considered by the full committee so I do have to run over there, but I appreciate very much your having this hearing. It is amazing the number of issues this committee has been able to tackle since you became chairman, all in a constructive way. It didn't always have the reputation for doing the most constructive things, but boy this has been——

Chairman TOM DAVIS. Thank you. You're given additional time if you want it. [Laughter.]

Mr. MORAN. This is important—$112 billion Thrift Savings Plan. As Mr. Waxman said, the participants are being billed $36 million for a failed project in modernizing it, enabling people to access their information on a daily instead of a monthly basis. It was a laudable objective. I represent 82,000 Federal employees—you represent nearly the same number—and 10,000 military employees who are eligible for the Thrift Savings Plan. It's very important for them, but I think it is important for the entire country. We have Federal employees living all over this Nation, and they rely upon the TSP to be not only their source of retirement but the way that they borrow money to buy homes and other major purchases, so this cannot be overstated how important this issue has been to their lives.

The fact is that they have been going through horrible situations and unbelievable difficulty just to access their information and to be able particularly to get the services that they rely upon.

You mentioned some examples of your constituents. I'm sure you've had constituents that have told you, as one did, that they've spoken with 10 different individuals and gotten 10 different answers.

We have a constituent that found the home of her dreams and on May 23rd of this year she submitted an application for the loan against her Thrift Savings balance, faxed all the documents June 3rd. She had a July 11th closing on her house. She didn't get the money until July 14th, missed the time, lost the home. And it's her money that she wanted to borrow. Now, in that case family members lent her the money, but, you know, that's not the way it is supposed to work. The Post had a headline, "Computer Problems Shake Faith in TSP," and that's the basic problem, that people are losing faith in the Thrift Savings Plan system. It's a crisis of confidence, not just with this retirement system but with the Congress as well, and that's why this hearing is so important.

We've got to get to the bottom of the problem. I'm sure that you will through this committee. We need to know what measures are being taken to address the enormous backlog that has now been created. I think specifically, how did it occur? When the governing body spent nearly $100 million and more than 6 years to create an interactive Web site so that participants could access their accounts and conduct transactions on a daily basis, you would think $100 million and 6 years would have been enough. We need to know when they plan on resolving the computer glitch so that retirees

can use it. Why has it taken so long to get a reliable, efficient, and secure system up and running? Where do the participants go now to make transactions when the computer system is being fixed?

I understand that most participants are being told to just wait until the problem is resolved. Well, it's their money, it's their accounts. That's not a satisfactory response.

The fact is that the bond of trust has been broken and it is our collective responsibility to ensure that we restore that confidence on the part of Federal employees in the Thrift Savings Plan and in Congress' ability to work with the Board to fix it.

This is a serious issue. I really appreciate the committee getting into it. We apologize to all those participants who have lost homes or have not been able to access their accounts because it just hasn't worked for them. Hopefully, we'll fix it in a way that it will never be broken again in this manner.

Again, Mr. Chairman, thank you for having a hearing on it. I trust that by the end of this hearing we're going to get the right answers and restore confidence to the participants of the Thrift Savings Plan.

Thank you.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Hon. James P. Moran follows:]

Testimony from the Honorable Jim Moran
Before the House Government Reform Committee
Hearing on the Thrift Savings Plan
July 24, 2003

Mr. Chairman and Members of the Committee, I want to thank you for holding today's hearing and for allowing me the opportunity to testify on the latest setback in the management of the $112 billion Thrift Savings Plan (TSP) that has caused countless headaches for the millions of current and retired federal employees who rely on the retirement program.

The TSP, a 401(K)-type retirement savings plan, represents one of the wonderful benefits of federal employment. Its 3 million participants expect it to run smoothly and have been more than patient as the TSP's governing body did legal battle with the company designated to create a more efficient computer system for participants to use. In fact, the TSP's participants are actually paying for the mistakes of both a former contractor and TSP's governing board. Because of the botched attempt to modernize TSP's computer system, participants are having to foot a $36 million bill for the failed project.

The federal workforce deserves a retirement system that will be there for them when they need it. This hearing is not about pointing blame. I hope today's hearing examines the root causes of this problem, both on a computer level as well as the process and management surrounding the breakdown of communications and services under the TSP. We cannot allow these individuals to be left with a system that is unreliable or does not earn participants' confidence in serving their retirement needs.

When the TSP announced it would provide participants with the ability to access their retirement account information through the Internet, I applauded this endeavor. I, like most of the 82,000 thousand federal employees I represent and the 10,000 military employees who are eligible for the TSP, believed it represented a positive step toward giving federal employees the flexibility and ease of conducting online transactions from their retirement accounts.

After a lengthy effort to modernize its computer system, the TSP upgraded its service this year to enable participants to conduct transactions daily instead of on a monthly basis. This effort, while ambitious, was meant to give federal employees the tools and conveniences of managing their retirement much like private sector organizations have been offering their employees for quite some time.

As a member who, like the Chairman, has one of the most computer proficient districts in the country, I applaud the TSP's efforts to offer more online services to its participants. This is a huge undertaking that when achieved, will transform the TSP into a top-rate operation.

Unfortunately, as we have seen in the past few months, the TSP's computer system is plagued with glitches that have denied participants access or left them without the ability to

access their retirement account information to conduct vital transactions, such as home loans and withdrawals.

I understand that TSP has conducted "stress tests" and other assessments of the responsiveness of the system. I understand, too, that problems occur with the Internet sometimes being slow and that goes beyond the control of the TSP. Regardless of this, we need to ensure the TSP website is fixed and back up-and-running and serving the retirement needs of our federal workforce.

In recent months, I have heard from many constituents who have confronted these obstacles and lack of response by TSP. I would like to cite just a few of the examples that my constituents have brought to my attention. I won't highlight their names to protect their privacy, but I suspect these examples are representative of problems many other federal employees are facing.

Whether it's the inability to make withdrawals from employee accounts, long delays for processing loan applications, contradictory responses to questions, terminated transactions, or simply not being able to reach a human being on the TSP phone line, these participants are faced with the consequences, often financially devastating, of the problems and backlog of the TSP system.

For example, one constituent paid back in full a loan from the TSP, but the computer system has yet to recognize his full payment and his paycheck continues to be debited for payments on the loan. He has spoken with 10 different individuals at the TSP about the problem, and in his words, "gotten ten different answers."

But the problem doesn't stop there.

Several constituents have submitted loan applications, but the computer system has not processed these transactions even though they occurred months ago.

Another constituent, for example, came close to losing the house of her dreams because of loan processing delays and spotty information. On May 23 she submitted an application for a loan against her TSP balance and faxed the required documents on June 3 in anticipation of a July 11 closing on her house. At first she was told the loan was denied, then she was told the loan was "in process." The funds from her loan were disbursed July 14 - three days after the scheduled closing of her house. Fortunately, family members were able to lend her the money for the closing.

To say this is simply a computer malfunction, overlooks the reality that human error is behind these problems. I can accept that a system is not fail-proof, but the magnitude and gravity of these problems reflects a much more pervasive problem with the TSP. While many of these glitches are correctable, many other transactions have resulted in devastating consequences by

threatening the very financial security of federal employees that the TSP is designed to protect.

As a recent headline from the Washington Post aptly states, "Computer Problems Shake Faith in TSP." The TSP, and by extension the Congress, is faced with a crisis of confidence in this system. I think as members we can all appreciate the technical challenges wrought by the Internet.

We need to be able to assure the TSP's 3 million participants that their retirement investments are not only safe and secure, but that the system lives up to its promises. TSP needs to have knowledgeable personnel who can respond to calls and website inquiries from its members but are also able to tell members how they will correct these problems.

Mr. Chairman, I hope that you and the members of the committee can get to the bottom of this problem. We need to know what measures are being taken to address the tremendous backlog of the TSP system. The history behind the development of this system has been marked by many obstacles along the way. I am hopeful the Committee and the TSP will be able to correct these problems and bring the system into the full-service operation it was designed to be.

We need answers to at least basic questions, specifically:

1. How did this glitch occur after the TSP's governing board spent nearly $100 million and more than six years to create a an interactive website where TSP participants could access accounts and conduct transactions on a daily basis?
2. When do you plan on having the computer glitch resolved so that federal employees and retirees can use it?
3. Why has it taken so long to get a reliable, efficient, and secure computer system up and running?
4. Where do participants go to make transactions while the TSP computer system is being fixed? I understand that people are just being told to wait until the problem is resolved.
5. What is the TSP going to do to fix the problems it has with the computer system?

The bond of trust has been broken and it is our collective responsibility to ensure that we restore federal employees' confidence in the TSP.

Mr. Chairman and Congressman Waxman, I appreciate this opportunity to offer testimony for today's hearing. I look forward to hearing from your witnesses and working with you to address this problem.

Chairman TOM DAVIS. Mr. Jefferson, thank you for being here, as well.

Mr. JEFFERSON. Thank you, Mr. Chairman. I appreciate the opportunity to be a part of this hearing this morning.

I am here for a number of very specific reasons. Some have already been stated by those who have spoken before me. I have deep concerns about those who are suffering who are constituents of the TSP plan, who are working hard to gain access and to get responses that they need. Since I happen to be, privileged to be I should say, the representative of the New Orleans area where the National Finance Center is located, which operates the TSP program, I get it in two ways. My concern is deep for those people who are constituent members of the Plan and who rightly expect to have the services provided to them on a timely and efficient, effective basis. I'm also concerned about the employees and management there at the NFC who have been unduly stressed, many of whom have had to seek medical treatment, and who are concerned about their reputations being besmirched by the fact that they are put to work on a system which literally doesn't work.

For many years the National Finance Center has ably discharged its responsibility under the TSP program and its other responsibilities altogether. We haven't had a complaint from the general public about how they have worked. In fact, we've had work lauded by those who have worked as managers here in Washington, who have worked as managers back in the district, and those who have generally had the responsibility for judging the effectiveness of the organization, itself, all have given very good reports. Employees have, therefore, enjoyed a wonderful reputation for service delivery, for competency.

We in the Congress have, year after year, dedicated tremendous resources to training our people and making sure they kept up their responsibilities, and they have done so.

And so I am very proud of what we have accomplished in New Orleans and what the Center has accomplished, what our employees have accomplished, and I am deeply concerned about their well-being now, as well as that of the people who are seeking to get help from the system.

So I am very pleased that the leadership at the National Finance Center and the Thrift Savings Plan have undertaken any number of new measures to try and deal with the backlog. I understand they have gone to 12-hour days now. I understand they're standing around the phone, working weekends as best they can, that they have reduced the backlog from 30,000 to now some 5,000 in just a few weeks. They are working very hard to fix this, but ultimately the technology is failing them.

The people out there need a response, need an answer, and also the employees need to have the pressure off them and to have a chance to do their job.

So I'm curious, as the others are who have spoken, to hear the testimony today. I'm curious to understand the logic that allowed a flawed computer finance system to go on line, a system that contractors and NFC employees knew still did not work properly and had bugs 2 days before. In fact, our people told them as much. Nonetheless, it was launched on June 16th.

Congress needs to get the answers. We owe it to the TSP members and the hard-working employees of the NFC. More importantly, we owe it to the American people to ensure that the Government operates efficiently and effectively and their money is well spent.

So thank you, Mr. Chairman. I appreciate the chance to speak to you and to participate in this hearing.

Chairman TOM DAVIS. Mr. Jefferson, thank you for being with us. I know this is a matter of concern to you, and we appreciate your leadership on this issue, as well.

Mr. JEFFERSON. Thank you very much.

[The prepared statement of Hon. William Jefferson follows:]

Remarks to Government Oversight Committee
on the Thrift Savings Plan
Thursday, July 24, 2003
U.S. Representative William J. Jefferson

Chairman Davis, Ranking Member Waxman and distinguished members of this committee. Thank you for offering me the opportunity to speak and participate.

I am here today for several specific reasons. First, I am here because the National Finance Center is in my district. Second, I am aware of the problems created by implementation of the new computer system for NFC employees. I am also extremely concerned about the anguish and financial stress that TSP members have undergone because the system apparently was brought online before it was ready.

Most important, I stand here to support the hard working employees of the National Finance Center who have been forced to deal daily with all of the problems -- and we all have heard of the problems -- created by a computer system that apparently was not ready to go on line. Not only has the NFC had to deal with a data input backlog that totaled almost 30,000 two weeks ago, but also an avalanche of phone calls from frustrated and irate TSP members. The pressure of dealing with this current crisis has sent half-dozen or more employees for stress-related treatment, and otherwise caused unnecessary stress and tension amongst this hardworking group.

Mr. Chairman, I am here to testify that the employees at the National Finance Center are fully qualified to perform the job and are not to blame. They have done it for years. I am confident that I am joined in my views by Ted McPherson, Chief Financial Officer, who I am sure will tell you of their high competence as he has told several times. Not only Mr. McPherson, but every previous CFO has also been very supportive and highly complimentary of the management and staff at the NFC.

So, the NFC has done excellent productive work over the years. So, what now explains the problems there? I submit that it is not the workers at the NFC that are not working hard enough or well enough for their clients; it

is rather that the technology system they have been required to work with simply does not work properly.

Mr. Chairman, the Congress has long supported the work of the NFC. We have spent millions of dollars on buildings, equipment and training because the NFC has performed and we should continue to strongly support it. It has established an exemplary record.

Despite the problems with system, I am pleased to report today that, working day and night, the NFC has reduced the backlog of loan applications from 30,000 a few weeks ago to less than 5,000 now. And, I understand that the NFC Service Center is starting a 12-hour per work day 7 am to 7 p.m. Eastern Time to better meet the current crisis and to prevent another crisis in the future.

On a final note, Mr. Chairman, I am anxious to hear the testimony. I am curious to understand the logic that allowed a flawed computer finance system to go on line -- a system that contractors and NFC employees knew still did not work properly and had bugs two days before launch – June 16.

Congress needs to get answers. We owe it to TSP members and the hard working employees of the NFC. More important, we owe it to the American people to ensure that government operates efficiently and effectively.

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Chairman TOM DAVIS. Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman. Let me thank you and the ranking member for holding this hearing. I'm pleased that the committee is holding the hearing on the Thrift Savings Plan because in my estimation it is long overdue.

The TSP is a retirement, saving, and investment plan for Federal employees governed by the Federal Retirement Thrift Investment Board. In December of last year the TSP had approximately 3 million participants and $102.3 billion in net assets available for benefits. The TSP is the largest retirement, saving, and investment in the Nation, and the Congress has held only one oversight hearing in 10 years. The lack of oversight of the TSP may be due to the fact that there have been few complaints about the TSP until recently, but these complaints make it clear how essential it is for the committee to monitor more closely the TSP's activities.

Over the last 25 years, there has been a shift by employers from traditional defined benefit pension plans to defined contribution plans like the 410(k). The Federal Government made the transition in 1987 when it went from the Civil Service Retirement System to the Federal Employees Retirement System [FERS].

FERS consists of three elements: one, Social security; two, FERS basic annuity; and, three, TSP. The TSP is a key component of FERS because workers are unlikely to realize adequate retirement income from FERS without fully investing in the TSP.

In 1997 the Board awarded a contract to American Management Systems [AMS], to develop and implement a new recordkeeping system for the TSP. In 2001, after several implementation delays, the Board terminated the contract and the Board's executive director filed a lawsuit against the contractor on behalf of TSP. The TSP Board's suit was hampered by questions over whether the Board could file suit independently as it had done, or whether it was required to sue through the Department of Justice.

Due to cost considerations, the Department of Labor questioned the Board's decision to use private representation to argue the case. Of course, Representative Tom Davis, Dave Weldon, and myself requested that the General Accounting Office examine the Department of Labor's oversight authority as it pertains to TSP. GAO's report, which was released in April, suggested that to strengthen Department of Labor oversight and to increase accountability of the TSP Board, Congress would consider amending the Federal Employees Retirement Savings Act to allow the Department of Labor to have a formal process for ensuring that its concerns are addressed by the Board. The committee should take this recommendation under serious consideration and work with the Board and the Department of Labor to ensure the efficient and transparent management of the Thrift Savings Plan.

After terminating its contract with AMS, the Board hired Materials, Communication, and Computers, Inc., to complete the AMS contract and to develop a modernized recordkeeping system. The new system, which went on line on June 16th, was designed to allow participation to perform an array of new services on the TSP Web site. However, the participants have been experiencing problems and delays in accessing the new system in this manner. This problem is very troubling, and I hope that it will be resolved soon.

I thank you, Mr. Chairman, again for holding this hearing, and I certainly trust that we will find some answers and directions as we hear from the witnesses.

I thank you very much.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Hon. Danny K. Davis follows:]

**STATEMENT OF THE HONORABLE DANNY K. DAVIS
AT THE COMMITTEE ON GOVERNMENT REFORM HEARING
ON THE**

THRIFT SAVINGS PLAN (TSP)

July 24, 2003

Chairman Davis, Ranking Member Waxman, and Subcommittee Chairman JoAnn Davis, I am pleased that the Committee is holding a hearing on the Thrift Savings Plan because it is long over due.

The TSP is a retirement savings and investment plan for federal employees, governed by the Federal Retirement Thrift Investment Board (Board). In December of last year, the TSP had approximately 3 million participants and $102.3 billion in Net Assets Available for Benefits. The TSP is the largest retirement savings and investment in the nation and

the Congress has held only one oversight hearing in 10 years.

The lack of oversight of the TSP may be due to the fact that there have been few complaints about the TSP until recently. But these complaints make it clear how essential it is for the Committee to monitor more closely the TSP's activities.

Over the last 25 years, there has been a shift by employers from traditional defined benefit pension plans to defined contribution plans – like the 401(k). The federal government made the transition in 1987 when it went from the Civil Service Retirement System to the Federal Employees Retirement System (FERS).

FERS consists of three elements: (1) Social Security, (2) the FERS basic annuity, and (3) TSP. The TSP is a key component of FERS because workers are unlikely to realize adequate retirement income from FERS without fully investing in the TSP.

In 1997, the Board awarded a contract to American Management Systems (AMS) to develop and implement a new record-keeping system for the TSP. In 2001, after several implementation delays, the Board terminated the contract, and the Board's executive director filed a lawsuit against the contractor on behalf of TSP.

The TSP Board's suit was hampered by questions over whether the Board could file suit independently, as it had done, or whether it was required to sue through the Department of Justice. Due to cost considerations, the Department of Labor questioned the Board's decision to use private representation to argue the case.

Reps. Tom Davis, Dave Weldon and myself, requested that the General Accounting Office (GAO) examine the Department of Labor's oversight authority as it pertains to TSP. GAO's report, which was released in April, suggested that to strengthen Department of Labor oversight and to increase accountability of the TSP Board, Congress should

consider amending the Federal Employees Retirement Savings Act to allow the Dept. of Labor to have a formal process for ensuring that its concerns are addressed by the Board.

The Committee should take this recommendation under serious consideration and work with the Board and the Department of Labor to ensure the efficient and transparent management of the Thrift Savings Plan.

After terminating its contract with AMS, the Board hired Materials, Communications & Computers, Inc. to complete the AMS contract and to develop a modernized record-keeping system. The new system, which went on-line on June 16, was

designed to allow participants to perform an array of new services on the TSP website. However, participants have been experiencing problems and delays in accessing the new system in this manner. This problem is very troubling and I hope that it will be resolved soon.

The TSP has operated without incident for years and I commend the Board for their hard work. Congress, however, must ensure that the Board and the Department of Labor have the tools to manage the federal government's retirement and investment plan effectively and efficiently on behalf of TSP participants.

I look forward to the testimony of today's witnesses. Thank you.

Chairman TOM DAVIS. Do any other Members wish to make opening statements?

[No response.]

Chairman TOM DAVIS. If not, we'll proceed to our first panel. I invite you to come on up here.

We have a distinguished panel. We have the Honorable Andrew Saul, the chairman of the Federal Retirement Thrift Investment Board. Mr. Saul is accompanied by Gary Amelio, the Board's Executive Director. Both are relatively new to this. We appreciate your being here.

Next we'll hear from the Honorable Edward McPherson, Chief Financial Officer, Department of Agriculture. He is accompanied by Jerry Lohfink, who is the Acting Director of the National Finance Center.

And rounding out the first panel is Alan Lebowitz, the Deputy Assistant Secretary for Program Operations, Employee Benefits Security Administration of the Department of Labor.

It's the policy of this committee that all witnesses be sworn before they testify. If you would rise and raise your right hands.

[Witnesses sworn.]

Chairman TOM DAVIS. Thank you very much.

In order to allow time for more questions and discussion, try to limit your opening statement to about 5 minutes. We have a light in front; it will be green at the outset of your remarks. After 4 minutes it turns orange, and the 5th minute it turns red. That will give you an idea. Once it is red, if you could try to move to summary—your entire statement is in the record and Members or their staffs have read it and have based questions on the entire statement, so this will give you an opportunity to highlight that.

Mr. Saul, thanks for being with us. In some sense this has been dumped on you and you are kind of sitting there trying to solve this, and we just appreciate your being here and trying to work with us to get this system up and going.

STATEMENTS OF ANDREW SAUL, CHAIRMAN, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD, ACCOMPANIED BY GARY AMELIO, EXECUTIVE DIRECTOR, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD; EDWARD P. MCPHERSON, CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY JERRY LOHFINK, ACTING DIRECTOR, NATIONAL FINANCE CENTER, U.S. DEPARTMENT OF ATTORNEY GENERAL; AND ALAN LEBOWITZ, DEPUTY ASSISTANT SECRETARY FOR PROGRAM OPERATIONS, EMPLOYEE BENEFITS SECURITY ADMINISTRATION, U.S. DEPARTMENT OF LABOR

Mr. SAUL. I appreciate the opportunity to address this distinguished committee. Good morning, Mr. Chairman and members of the committee. My name is Andrew Saul and I serve as chairman of the Federal Retirement Thrift Investment Board. I am accompanied today by Gary Amelio, the Board's Executive Director. My fellow Board members and I serve in a part-time capacity. Four Board members are relatively new to our positions. Three of us participated in our first Board member meeting last December, and our newest member is joining us for his first meeting today. The

five Board members and the Executive Director are fiduciaries and, as such, are required to act solely in the interest of the Plan participants and beneficiaries.

In January the Board established an open and orderly process through a 5-month nationwide research that resulted in the selection of Gary Amelio, a private sector pension and investment expert, who began his service as the Executive Director just a few weeks ago. We have provided information on Gary's extensive experience in these areas to the committee. The Board is quite confident that Gary will bring his 22 years of private sector experience to result in the betterment of the Thrift Savings Plan for the participants.

In your letter of invitation you asked that I address issues in three distinct areas: the new TSP recordkeeping system; the settlement of the lawsuits between the agency and American Management Systems, Inc.; and potential legislative improvements in the TSP. I welcome the opportunity to discuss each matter.

When the new Board members first convened last December, we learned that a proposed daily valued recordkeeping system had been plagued by a series of delays and a contract termination. A new contractor, MATCOM, was already in place at that time, having replaced the prior contractor, AMS. After receiving detailed briefings, I and the other Board members felt it was appropriate to keep moving forward with a goal to deliver to Plan participants the improvements first promised in 1997. The improvements to which I refer are daily rather than monthly valuation of accounts and Web-based transactional ability. This upgrade in services for the Plan participants would bring the TSP to a comparable status with plans in the private sector.

The Board received status reports at each of our monthly Board meetings, and the new system was put into production just 1 month ago on June 16, 2003.

Since that time we have successfully processed large numbers of transactions each day and recorded them in the new system. However, performance in certain areas has been unsatisfactory and requires improvement. I would like to discuss both.

Between June 16th and July 15th, we processed nearly 5 million new contribution transactions totaling $1.2 billion and more than 1 million loan payments to service the almost 800,000 outstanding TSP loans. New contributions and loan repayments have been credited to individual accounts each night. In addition, the daily share prices for each of the five investment funds have been calculated by the agency and applied to these accounts. These functions, which are absolutely essential activities, have been and are working just fine.

We also issued more than 12,000 new loans and 32,000 withdrawal payments through the new system. On June 16th, we processed 59,000 inter-fund transfers on hand at that time and nearly 50,000 more in the month that followed.

One area where we did not anticipate poor performance but which initially reduced the opportunity for participants to join the advantages of the new system is Web access. Almost immediately after we announced the new system implementation, Web access became degraded and terribly slow. Only 3,000 to 5,000 Web trans-

actions could be handled each hour, which was less than 1/10 of the volume achieved in stress testing. It took more time than we would have liked to identify and solve this problem.

I am pleased to report that we have recently solved this problem. Up to 50,000, Web transactions are now being processed per hour, a volume that is greater than the highest level ever achieved under the previous system. Access is still very slow due to high volume between the peak activity hours of 8 a.m. and 4 p.m. The Web is much quicker at other times.

Additional performance improvements are on the way that will increase Web volume and further improve online response time. One significant problem has greatly impacted a small percentage of Plan participants. This problem is largely operational in nature and is being resolved through manual data entry. The primary group of impacted participants are those who have attempted to pay off existing TSP loans in order to apply for new loans. In many cases, these individuals already have the maximum two loans allowed under the Plan and their loan repayments were not processed quickly enough to allow for the disbursement of a new second loan as quickly as they wished. When a participant pays off an existing loan, his or her check must be processed and the loan closed before the new application processing can begin. As of late last week, a backlog of about 7,000 loan repayment checks remained to be manually processed. 2,000 checks transferring funds from other plans to the TSP known as roll-overs also required manual processing. I call to your attention the fact that this is 9,000 participant transactions from a universe of 3 million participants.

Additional recordkeeping staff were assigned to data entry of these loan repayments. We have also hired contractor support at two separate sites to supplement this increased effort. We have used the same approach to process the paper loan and withdrawal applications which participants had submitted to overcome the initial Web access problems. The backlog in this area was approximately 70,000 forms as of late last week. The manual input process has been hampered by slowness on the Web. This is due to heavy volume caused in part by concerned participants whose loan checks have been delayed. We expect this backlog to be eliminated in 3 to 4 weeks.

Although the new system has successfully processed a very large volume of transactions, these past few weeks were very difficult for several thousand participants, primarily those seeking to refinance loans. I note that under the previous system, processing problems frequently meant the payments would be deferred until the following monthly cycle. A check would then be mailed to participants. This new system allows us to issue payments on any business day rather than once each month and do so via electronic fund transfer. We intend to use the new system flexibilities to the best advantage as we resolve the outstanding loan requests.

Settlement of lawsuits—the second major unresolved issue facing the new Board members when we first met in December was the matter of ongoing lawsuits. They involve the termination of the first contract to build the new TSP recordkeeping system. The Board and our new executive director reviewed the cases at length with the agency's General Counsel, solicited advice from private at-

torneys who represented and assisted the agency in preparation of the claims, and additionally solicited advice from attorneys in the Department of Justice and the opinions of the senior agency staff.

Based on all of that information, the Board supported the Executive Director's decision last month to accept the settlement offer that netted $5 million for participants. We are convinced that this was the correct decision for a number of reasons. First, continued litigation left the Thrift Savings Plan open to a contract claim by AMS against the agency that could have cost participants as much as $58 million. Second, continued litigation would consume additional time, money, and resources. The agency already had spent approximately $2.7 million in attorney and expert fees, and continuing the litigation would have cost much more. The agency had been pursuing the case since July 2001 without reaching the merits and we believe it would have taken another year before it could be determined whether the agency could proceed independently of the Department of Justice. Further, agency personnel devoted many hours of work to pursue the litigation, and the demands on these personnel would have become more intense as the litigation proceeded. Settling allows all agency personnel to focus on their principal duty of providing retirement benefits for the participants. For these and other reasons, we concluded that accepting a settlement that put $5 million back into the accounts of TSP participants was the right thing to do.

After the case was settled, $36 million was charged to participant accounts. This reflects the $41 million in administrative expenses incurred and paid out of the fund during the period 1998 to 2001 that had not been charged to participants pending resolution of the lawsuit, minus the $5 million received as part of the settlement. Charging the accounts is consistent with pending recommendations from both the General Accounting Office and the Department of Auditors. The charge allocated to each participant was approximately three basis points and meant that the earnings were reduced approximately 30 cents for every $1,000 of account balance.

Congressman, in order to save time, may I just proceed for one more moment in my closing remarks, which I think are very pertinent?

Chairman TOM DAVIS. OK.

Mr. SAUL. It will just take another moment.

Chairman TOM DAVIS. I'll give you some time because I know you are kind of on the spot here and we want to make sure you have the time.

Mr. SAUL. I appreciate that.

In closing, I would like to say that the last 6 months have been a time of tremendous change at the agency. Due to the events that occurred just days before the Senate confirmed the new Board members, we immediately had to deal with the issue of agency leadership upon our arrival. We also resolved, to the benefit of Plan participants and beneficiaries, the longstanding lawsuits that left the fund with significant potential liability, while diverting agency attention and resources. We initiated a new era of openness with our statutory auditor, the Department of Labor, and sought and obtained the assistance of the Department of Justice without in any

way diminishing the high fiduciary obligation we have to the participants.

Since arriving, Gary has already contacted the employee organizations that comprise the statute Employee Thrift Advisory Council in order to communicate ongoing activities and to set up an initial meeting as the law provides. He has also initiated due diligence reviews with the fund's two largest vendors, Barclays and the National Finance Center. We are now delivering the promised benefits of the new daily recordkeeping system to 3 million participants who want their contributions and loan payments processed and account balances updated each day.

Going forward, we are processing transactions via the Web and are working through the operational issues that are affecting loans, as I described in my statement.

We expect to have these issues substantially resolved in a matter of weeks, and we are confident that the new system will provide many years of solid service to all our participants.

That concludes my prepared remarks.

I would like to introduce the new TSP Executive Director, Gary Amelio, to the committee and request that he provide the committee with a brief update regarding the status of transaction processing.

Thank you.

Chairman TOM DAVIS. Thank you.

[The prepared statement of Mr. Saul follows:]

Statement of the Honorable Andrew Saul, Chairman
Federal Retirement Thrift Investment Board
Before the House Committee on Government Reform
July 24, 2003

Good morning Mr. Chairman and Members of the Committee. My name is Andrew Saul, and I serve as Chairman of the Federal Retirement Thrift Investment Board. I am accompanied today by Gary Amelio, the Board's Executive Director. My fellow Board members and I, serve in a part-time capacity. Four Board members are relatively new to our positions. Three of us participated in our first Board member meeting last December, and our newest member is joining us for his first meeting today. The five Board members and the Executive Director are fiduciaries and, as such, are required to act solely in the interest of plan participants and beneficiaries.

In January the Board established an open and orderly process through a 5-month nationwide search that resulted in the selection of Gary Amelio, a private sector pension and investment expert, who began his service as the Executive Director just a few weeks ago. We have provided information on Gary's extensive experience in these areas to the Committee. The Board is quite confident that Gary will bring his 22 years of private sector experience to result in the betterment of the Thrift Savings Plan for the participants.

In your letter of invitation, you asked that I address issues in three distinct areas: the new TSP record keeping system, the settlement of the lawsuits between the Agency and American Management Systems, Inc., and potential legislative improvements in the TSP. I welcome the opportunity to discuss each matter.

TSP Record Keeping System

When the new Board members first convened last December, we learned that a proposed daily valued record keeping system had been plagued by a series of delays and a contract termination. A new contractor, MATCOM, was already in place at that time, having replaced the prior contractor, AMS. After receiving detailed briefings, I and the other Board members felt it was appropriate to keep moving forward, with a goal to deliver to Plan participants the improvements first promised in 1997. The improvements to which I refer are; daily, rather than monthly, valuation of accounts, and Web based transactional ability. This upgrade in services for the Plan participants would bring the TSP to a comparable status with plans in the private sector. The Board received status reports at each of our monthly Board meetings and the new system was put into production just over one month ago on June 16, 2003.

Since that time we have successfully processed large numbers of transactions each day and recorded them in the new system. However performance in certain areas has been unsatisfactory and requires improvement. I would like to discuss both.

Between June 16 and July 15, we processed nearly 5 million new contribution transactions totaling $1.2 billion and more than 1 million loan payments to service the almost 800,000 outstanding TSP loans. New contributions and loan repayments have been credited to individual accounts each night. In addition, the daily share prices for each of the five investment funds have been calculated by the Agency and applied to these accounts. These functions, which are absolutely essential daily activities, have been and are working just fine.

We also issued more than 12,000 new loans and 32,000 withdrawal payments through the new system. On June 16 we processed 59,000 interfund transfers on hand at that time and nearly 50,000 more in the month that followed.

One area where we did not anticipate poor performance but which initially reduced the opportunity for participants to enjoy the advantages of the new system is Web access.

Almost immediately after we announced the new system implementation, Web access became degraded and terribly slow. Only 3-5 thousand Web transactions could be handled each hour, which was less than one-tenth of the volume achieved in stress testing. It took more time than we would have liked to identify and solve this problem. I am pleased to report that we have recently solved this problem. Up to 50,000 Web transactions are now being processed per hour, a volume that is greater than the highest level ever achieved under the previous system. Access is still very slow due to high volume between the peak activity hours of 8 a.m. and 4 p.m. The Web is much quicker at other times. Additional performance improvements are on the way that will increase Web volume and further improve online response time.

One significant problem has greatly impacted a small percentage of Plan participants. This problem is largely operational in nature, and is being resolved through manual data entry. The primary group of impacted participants are those who have attempted to pay off existing TSP loans in order to apply for new loans. In many cases, these individuals already have the maximum two loans allowed under the Plan, and their loan repayments were not processed quickly enough to allow for the disbursement of a new second loan as quickly as they wished. When a participant pays off an existing loan, his or her and check must be processed and the loan closed before the new loan application processing can begin. As of late last week a backlog of about 7,000 loan repayment checks remained to be manually processed. 2,000 checks transferring funds from other plans to the TSP known as rollovers also required manual processing. I call to

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Although the new system has successfully processed a very large volume of transactions, these past few weeks were difficult for several thousand participants, primarily those seeking to refinance loans. I note that under the previous system, processing problems frequently meant that payments would be deferred until the following monthly cycle. A check would then be mailed to participants. The new system allows us to issue payments on any business day (rather than once each month) and do so via electronic fund transfer. We intend to use the new system flexibilities to the best advantage as we resolve the outstanding loan requests.

Settlement of Lawsuits

The second major unresolved issue facing the new Board members when we first met in December was the matter of ongoing lawsuits. They involved the termination of the first contract to build the new TSP record keeping system. The Board, and our new Executive Director reviewed the cases at length with the Agency's General Counsel and solicited advice from the private attorneys who represented and assisted the Agency in preparation of its claims. Additionally, we solicited advice from attorneys in the Department of Justice and the opinions of the senior Agency staff.

Based on all of that information, the Board supported the Executive Director's decision last month to accept a settlement offer that netted $5 million for participants. We are convinced that this was the correct decision, for a number of reasons. First, continued litigation left the Thrift Savings Fund open to a contract claim by AMS against the Agency that could have cost participants as much as $58 million (that is, the amount AMS claimed it was still due under the contract). Second, continued litigation would consume additional time, money, and resources. The Agency already had spent approximately $2.7 million in attorney and expert fees and continuing the litigation would have cost much more. The Agency had been pursuing the case since July 2001 without reaching the merits and we believe it would have taken another year before it could be

determined whether the Agency could proceed independently of the Department of Justice. Further, Agency personnel had devoted many hours of work to pursue the litigation and the demands on these personnel would become more intense as the litigation proceeded. Settling would allow all Agency personnel to focus on their principal duty of providing retirement benefits for the participants. For these and other reasons, we concluded that accepting a settlement that put $5 million back into the accounts of TSP participants was the right thing to do.

After the case was settled, $36 million was charged to participants' accounts. This reflects the $41 million in administrative expenses incurred and paid out of the Fund during the period 1998-2001 that had not been charged to participants, pending resolution of the lawsuit, minus the $5 million received as part of the settlement. Charging the accounts is consistent with pending recommendations from both the General Accounting Office and the Department of Labor auditors. The charge allocated to each participant was approximately 3 basis points, which means that earnings were reduced approximately 30 cents for every $1,000 of account balance.

The Board is not abandoning the view that it is and must remain independent in pursuing the interest of participants. In 2001, the Board formally transmitted to Congress a legislative proposal regarding independent litigating authority for the Board. The measure was not introduced. Also, the Department of Justice opposes this position. At one recent meeting, a Board Member noted that working with the Congress on this matter would cost participants nothing, while pursuing it in court has cost the Fund millions. We would like to work with this Committee to see if we could find a way to satisfy concerns in the Congress and the Administration while, at the same time, removing any question by participants that their legal interests will be protected by the Plan's statutory fiduciaries.

Potential Legislative Improvements

In your invitation, you also asked for the Board's view on two potential legislative matters regarding TSP contributions. The first would abolish the statutory requirement for semi-annual contribution election periods. These are commonly known as open seasons. We wholeheartedly endorse this proposal. The Board supports eliminating open seasons because it expands participant access and simplifies Plan administration. We also believe it will increase Plan participation and contribution levels. Open seasons were useful when the Plan was conceived. They now serve to restrict the opportunity for employees to make contribution elections, and more damaging, delay eligibility for Agency Automatic (1%) and Matching Contributions for newly hired employees. The Board has previously supported legislative proposals that would have overcome the latter by providing these benefits as soon as new employees join the TSP. We would do so again and welcome the opportunity to work with the Committee on this matter.

Your second proposal would require that employing agencies assume responsibility to maximize TSP contributions by their employees. We have some administrative concerns with this proposal, and believe employing agencies would as well. However, your proposal to eliminate open seasons would address this concern, as well, by allowing participants to increase their contribution amount at any time.

In closing, I would like to say that the last six months have been a time of tremendous change at the Agency. Due to events that occurred just days before the Senate confirmed the new Board members, we immediately had to deal with the issue of Agency leadership upon our arrival. We also resolved to the benefit of Plan participants and beneficiaries the longstanding lawsuits that left the Fund with significant potential liability while diverting Agency attention and resources. We initiated a new era of openness with our statutory auditor, the Department of Labor, and sought and obtained the assistance of the Department of Justice without in any way diminishing the high fiduciary obligation we have to participants. Since arriving Gary has already contacted the employee organizations that comprise the statutory Employee Thrift Advisory Council in order to communicate ongoing activities and set up an initial meeting as the law provides. He has also initiated due diligence reviews with the Funds' 2 largest vendors, Barclays and the National Finance Center. We are now delivering the promised benefits of the new daily record keeping system to the 3 million participants who want their contributions and loan payments processed and account balances updated each day. Going forward, we are processing transactions via the web and are working through the operational issues that are affecting loans as I described in my statement. We expect to have these issues substantially resolved in a matter of weeks and are confident that the new system will provide many years of solid service to all participants.

That concludes my prepared remarks. I would like to introduce the new TSP Executive Director, Gary Amelio, to the Committee and request that he provide the Committee with a brief update regarding the status of transaction processing.

Chairman TOM DAVIS. Before we go ahead, let me just—I'm not going to put this letter in the record, but we received a letter addressed to our committee from a guy who had his house foreclosed on in California because he could not get the information from you all. What I'd like to do is give this to you and get your assurances that you'll do your best to try to correct this. He couldn't get any calls back and still can't get anything and his credit rating is ruined. So if I could give this to you and you could check that, could I have your assurance you'll look at this personally?

Mr. SAUL. Yes. Congressman, I want to assure you we don't take these problems, as you know, lightly, the problems that I described in my statement, and we will do everything we can and we will certainly get back to you and to this person, this aggrieved party.

Chairman TOM DAVIS. OK. I'll give this to you. Thank you very much.

Mr. Amelio.

Mr. AMELIO. Thank you, Andrew.

I would like to provide the committee with a brief update on the current status of the Plan's transactional activity.

The Plan currently serves over 3 million participants and holds over $113 billion in assets. It is the largest defined contribution plan in the world, whether defined by number of participants or value of assets. The conversion of a defined contribution plan into a daily system is the single most sophisticated and technical transformation that any retirement plan can undergo. To put this into context, you have today one of the largest and most respected private sector vendors, TIAA-CREF, testifying later. They service 2.6 million participants. This represents a half million less participants than the TSP. Moreover, the TIAA-CREF participant base actually belonged to hundreds if not thousands of individual, unrelated plans which have been converted to daily, one plan at a time, over the past 20 years. The TSP was converted as one single plan.

I can state without reservation or hesitation that, based upon over 20 years of private sector experience in this field, it is an incredible accomplishment that the TSP was converted without blackout period or other interruption of service to the TSP's 3 million participants. The fact that some 10,000 participants have experienced substantial delays of between 2 to 6 weeks in receiving loan checks, and have experienced further frustration in slow Web site response or activity update and busy call center lines, is terrible and we are sorry for their anguish. It should be noted, however, that while some of these participants have experienced severe hardship, as reported to the media and to your offices, the totality of such problems represent less than one-third of 1 percent of all Plan participants.

Since becoming operational 40 days ago, the system has conducted record numbers of transactions. This past Monday, 813,000 transactions were conducted. Since June 16th, in excess of 400,000 transactions were conducted on each of 20 days. Prior to June 16th, the number of transactions processed on a given day exceeded 500,000 only once in the Plan's life, that being on June 5th of this year.

This is an incredible increase in capacity performance. Even the Web site, which has at times operated sluggishly, has performed in

an impressive fashion. The average response time, which began slowly in the first 15 days of operation with an average response time of 20 to 80 seconds, has since improved to a daily average not exceeding 5 seconds since July 1st. The transaction processing and Web site response numbers are illustrated in the two color-coded graphs provided to the committee members.

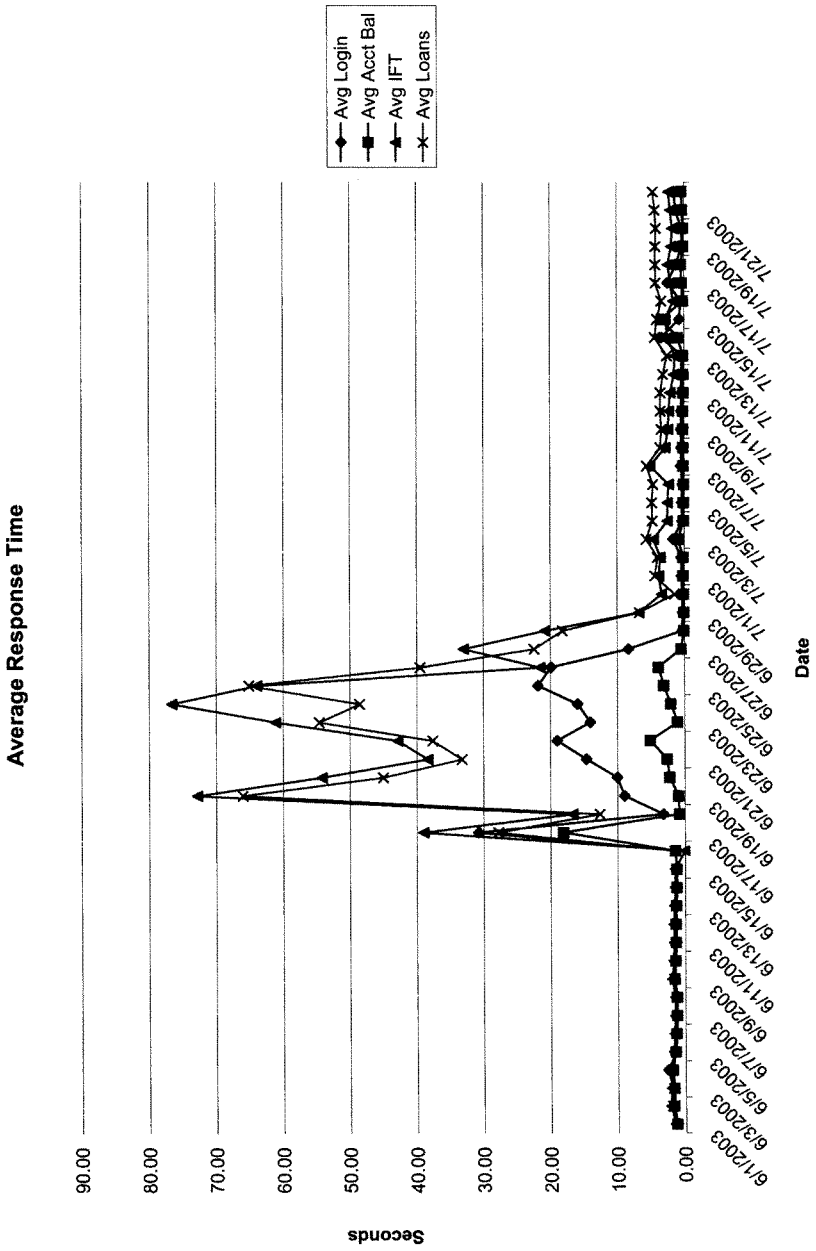
With respect to the backlog, as of this morning all loan repayments have been processed, a reduction of 7,049 participant transactions, opening for these individuals the ability to obtain approval for new loans. Currently, 10,800 new loans have been applied for, all believed to be within an acceptable 10-day window, 6,500 of which will clear this evening.

While these performance numbers are large and impressive, I pledge the agency's continued efforts to improve Web and telephone response times and to clear the backlog of outstanding loans and rollovers.

We extend an offer to the members of this committee to see one of our representatives after this hearing if they would like a demonstration of the Web site or to view their own particular TSP account on the Web site.

Thank you for your attention.

[The information referred to follows:]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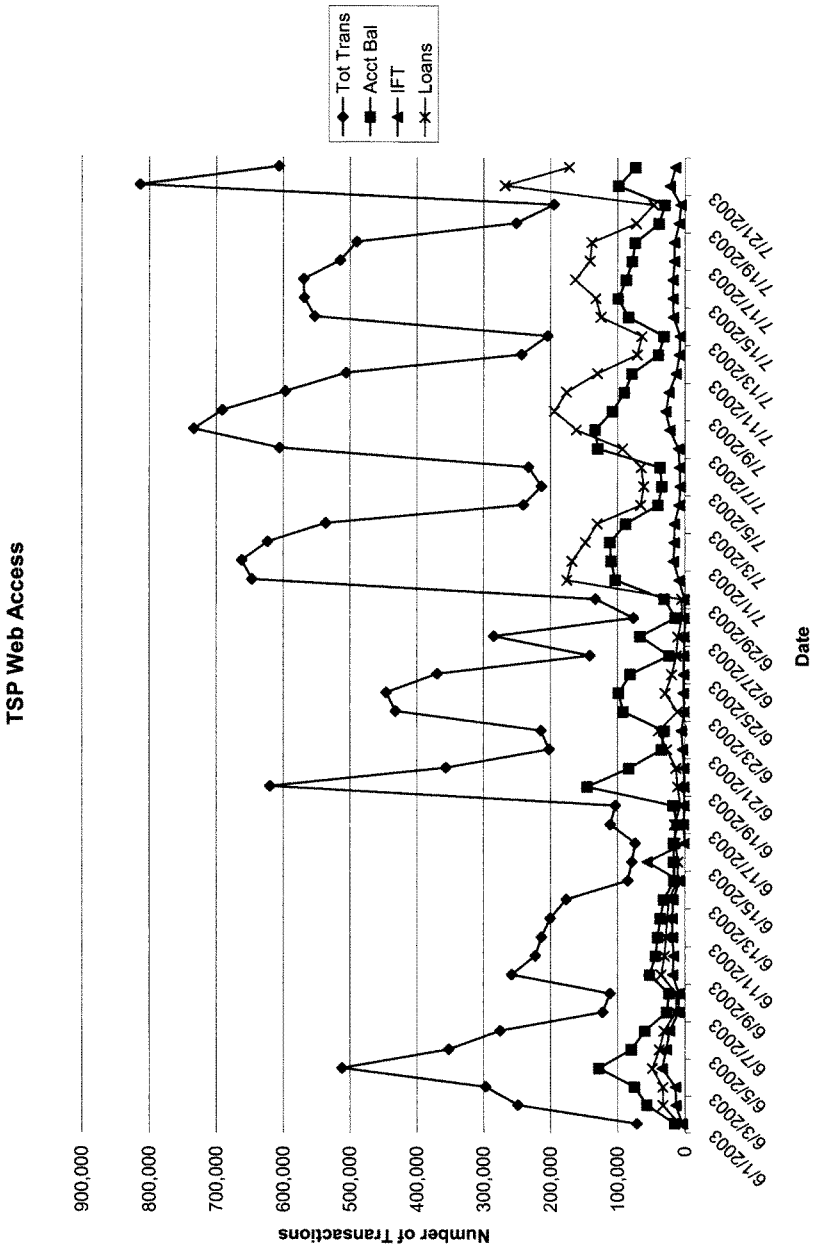
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Chairman TOM DAVIS. Thank you.

Mr. McPherson, thank you for being with us.

Mr. MCPHERSON. Mr. Chairman, members of the committee, thank you for inviting me to focus today on the National Finance Center's role in serving the interests of the participants in the Thrift Savings Plan.

As context, the National Finance Center is a valuable, successful, strategic asset of the Federal Government that is part of the Department of Agriculture. The National Finance Center is an operations center whose lines of business aggregate to $180 million of service revenue and approximately 1,600 people.

There are three lines of business at the National Finance Center. First, the Controller Operations Division of the National Finance Center performs accounting operations for the Department of Agriculture. Second, the National Finance Center processes payroll for over 500,000 Federal employees. Third, the National Finance Center performs work using systems supplied by the Federal Retirement Thrift Investment Board to process recordkeeping transactions for the participants in the Thrift Savings Plan. Specifically, the work we perform in our role of supporting the Board consists of entering data from participant transactions received by mail, processing participant fund allocations, inter-fund transfers, loan agreements and disbursements, processing withdrawals and payments to and from participants, and providing telephone customer service to participants.

The Thrift Savings Plan is a highly automated process. The work performed by the customer service representatives at the National Finance Center is dependent upon having a stable, reliable, available computer system designed, developed, and implemented by the Thrift Board and its contractors.

There are three primary elements on which the Thrift Investment Board worked with the National Finance Center prior to the launch of the new recordkeeping system. One, training was conducted on the use of new system capabilities. Second, historical data on participant records were prepared for use in the new system. Third, computer hardware requirements for the new system were provided to us and implemented.

For several weeks after the Board launched the new system on June 16, 2003, limited system functionality of the Web access and the component of the system used by customer service representatives and transaction processing elements limited the ability of the National Finance Center to perform the work I have described.

The central issue of today's hearing is: What actions are being taken by the Thrift Investment Board to provide service to their customer base of participants? In response, the National Finance Center has adapted to the new system by working closely with the Board's executives to take specific actions, including expanding the length of data entry work shifts, augmenting the work force with additional people in data entry and telephone service, extending customer service hours, and notifying the Board and its contractors of corrective actions required. These actions are focused on reducing the backlog of work, addressing participant informational needs, and doing whatever is possible to assist the board in stabilizing the new system.

I assure you, Mr. Chairman, members of the committee and all participants, that the staff of the National Finance Center is fully dedicated to working closely with the Board to restore service as the National Finance Center has done for the prior 18 years.

I appreciate the opportunity to participate today, representing the National Finance Center in addressing the interest of all participants, and I look forward to addressing any other items of particular interest of the committee.

Chairman TOM DAVIS. Thank you very much.

[The prepared statement of Mr. McPherson follows:]

STATEMENT OF

EDWARD R. MCPHERSON

CHIEF FINANCIAL OFFICER

UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE HOUSE COMMITTEE ON GOVERNMENT REFORM

TESTIMONY ON

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

THRIFT SAVINGS PLAN

July 24, 2003

Mr. Chairman and members of the Subcommittee, thank you for inviting me to focus today on the National Finance Center's (NFC) role in serving the interests of the participants in the Thrift Savings Plan.

As context, the National Finance Center is a valuable, successful strategic asset of the Federal government that is part of the Department of Agriculture (USDA). The National Finance Center is an operations center whose lines of business aggregate to $180 million of service revenue and approximately 1,600 people.

There are three lines of business of the National Finance Center. First, the Controller Operations Division of the National Finance Center performs accounting operations for the Department of Agriculture. Second, the NFC processes payroll for over 500,000 Federal employees. Third, the NFC performs work using systems supplied by the Federal Retirement Thrift Investment Board to process record-keeping transactions for participants in the Thrift Savings Plan.

Specifically, the work we perform in our role of supporting the Board consists of entering data from participant transactions received by mail, processing participant fund allocations, inter-fund transfers, loan agreements and disbursements, processing withdrawals and payments to and from participants, and providing telephone customer service to participants.

The Thrift Savings Plan is a highly automated process. The work performed by the customer service representatives at the National Finance Center is dependent upon having a stable, reliable, available computer system designed, developed and implemented by the Thrift Investment Board and its contractors.

There are three primary elements on which the Thrift Investment Board worked with NFC prior to the launch of the new record-keeping system. One, training was conducted on the use of new system capabilities. Second, historical data on participant records were prepared for use in the new system, and third, computer hardware

requirements for the new system were provided and implemented.

For several weeks after the Board launched its new system on June 16, 2003, limited system functionality of the web access, and the component of the system used by customer service representatives, and transaction processing elements limited the ability of the staff of the National Finance Center to perform the work I have described.

The central issue of today's hearing is what actions are being taken by the Thrift Investment Board to provide service to their customer base of participants.

In response, the NFC has adapted to the new system by working with the Board's executives to take specific actions, including expanding the length of data entry work shifts, augmenting the workforce with additional people in data entry and telephone service, extending customer service hours, and notifying the Board and its contractors of corrective items required. These actions are focused on reducing the backlog of work, addressing participant informational needs, and doing whatever possible to assis the Board in stabilizing the new system.

I assure you Mr. Chairman, members of the Committee, and all participants that the staff of the National Finance Center is fully dedicated to working closely with the Board to restore service as the National Finance Center has done for the prior 18 years

I appreciate the opportunity to participate today representing the National Financ Center in addressing the interests of all participants.

I look forward to addressing any other items of particular interest of the Committee.

Chairman TOM DAVIS. Mr. Lebowitz, thanks for being with us.

Mr. LEBOWITZ. Good morning Mr. Chairman and members of the committee. My name is Alan Lebowitz; I'm Deputy Assistant Secretary for Program Operations of the U.S. Department of Labor's Employee Benefits Security Administration [EBSA]. I appreciate the opportunity to appear before you today to discuss the Labor Department's activities in connection with the Federal Thrift Savings Plan.

In addition to its TSP oversight responsibilities, EBSA currently oversees approximately 730,000 private sector pension plans and millions of private sector health and welfare plans that are subject to the Employee Retirement Income Security Act of 1974 [ERISA]. The pension plans under our jurisdiction hold over $4 trillion in assets and cover more than 45 million workers.

Title I of ERISA establishes the fiduciary standards of conduct for persons who administer and manage pension and other benefit plans. In addition, it establishes standards for the reporting and disclosure of Plan financial and benefit information to the Department and to Plan participants.

In light of the Department's experience and expertise in the administration and enforcement of ERISA, Congress charged us with administering substantially similar provisions of law governing fiduciary conduct for the TSP under the Federal Employees Retirement System Act of 1986 [FERSA]. To ensure the integrity of the TSP, FERSA established rules for fiduciary responsibility, prohibited transactions and bonding requirements. These standards are substantially similar to rules governing private sector pension plans under ERISA. The rules specify that the Board members and Executive Director are fiduciaries of the TSP. Accordingly, they and other Plan fiduciaries must discharge their responsibilities prudently and solely in the interest of participants and beneficiaries.

As in ERISA, the Secretary has broad authority to investigate and audit the activities of the Board and other Plan fiduciaries. When FERSA was enacted in 1986, the Secretary had the power to bring civil actions against the Plan's fiduciaries for breaches of their fiduciary responsibilities. This changed in 1988, when Congress amended the act and specifically precluded suits by the Secretary against the Board's members and Executive Director.

Though Plan participants and other fund fiduciaries retain the right to sue Board members, the amendments do not permit any claims for monetary recovery against these individuals. The 1988 amendments treat actions against the Board for recovery of losses to the fund as tort actions against the United States, which are defended by the Attorney General; however, nothing prevents the Department from bringing an action for recovery against other TSP fiduciaries such as investment managers.

Section 8477(g) of FERSA specifically directs the Secretary of Labor to establish a program to carry out audits to determine the level of compliance with the act's fiduciary standards. Under the statute, the Secretary may contract with a qualified non-government organization or conduct the audit in cooperation with the Comptroller General of the United States. The Department has always elected to contract with an accounting firm. Currently, KPMG

LLP conducts the TSP audits under the supervision of the EBSA Chief Accountant.

To guide the auditors, the Department has developed a fiduciary oversight program that uses detailed guides to test for compliance.

In response to recent concerns expressed about access to the TSP's Web site, we are planning to review its customer service, loan and withdrawal subsystems in next year's audit cycle.

Although FERSA does not require the Board to adopt the Department's recommendations, disagreements are rare and generally are due to the timing or the form of implementation rather than to outright refusal. Since the inception of the audit program, the Department has made over 800 recommendations that have ranged from legal compliance issues to efficiency issues. Of these recommendations, 95 percent have been implemented. The remaining recommendations primarily involve future controls for the TSP's new recordkeeping system as it moves past its June 2003 implementation.

This high compliance rate with audit recommendations is due to the longstanding and positive working relationship between the Department and the TSP service providers and fiduciaries; however, there have been issues about which the Department and the Board have disagreed. These issues arose in the context of the Board's 2001 lawsuit against American Management Systems. The disagreements included the decision by the Board to retain, at considerable expense to the Plan outside counsel to represent it in this litigation and the accounting of the costs for the failed system's development.

Though unable to take direct enforcement action on these matters, the Department referred its findings to the GAO and OMB and discussed these issues with congressional committees of jurisdiction, including this committee's Civil Service Subcommittee.

We look forward to working with Executive Director Amelio, Chairman Saul and the other Board members, most of whom have been recently appointed by the President. We anticipate continuance of a free and candid exchange of views that will greatly benefit not only the Department in its oversight capacity but, most importantly, TSP participants and beneficiaries.

Thank you again, Mr. Chairman, for the opportunity to testify before you today. I look forward to working with you and members of this committee on this important matter. I would be pleased to answer any questions that you may have.

Chairman TOM DAVIS. Thank you all.

[The prepared statement of Mr. Lebowitz follows:]

STATEMENT OF ALAN D. LEBOWITZ
DEPUTY ASSISTANT SECRETARY FOR PROGRAM OPERATIONS
EMPLOYEE BENEFITS SECURITY ADMINISTRATION
U.S. DEPARTMENT OF LABOR
BEFORE THE
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

July 24, 2003

Chairman Davis, Ranking Member Waxman, and distinguished Members of the Committee:

I appreciate the opportunity to appear before you today to present information about the Federal Employee Retirement System (FERS), the Thrift Savings Plan (TSP), and the Labor Department's activities in this area. My name is Alan Lebowitz. I am the Deputy Assistant Secretary for Program Operations, of the Employee Benefits Security Administration, U.S. Department of Labor. Accompanying me is Timothy Hauser, Associate Solicitor of Labor for Plan Benefits Security.

THE EMPLOYEE BENEFITS SECURITY ADMINISTRATION

Before describing the Labor Department's activities with the TSP, I would like to provide you with some background information specifically about the Employee Benefits Security Administration and our responsibilities.

EBSA currently oversees approximately 730,000 private pension plans and millions of private health and welfare plans that are subject to the Employee Retirement Income Security Act of 1974 (ERISA). The pension plans under our jurisdiction hold over $4 trillion in assets and cover more than 45 million workers. EBSA employs a comprehensive, integrated approach encompassing programs for enforcement, compliance assistance, interpretive guidance, legislation, and research to protect and advance the retirement security of our nation's workers and retirees.

Title I of ERISA consists of provisions that establish standards of fiduciary conduct for persons who are responsible for the administration and management of pension and other benefit plans (including group health plans, life insurance, disability, dental plans, etc.). In addition, it establishes standards for the reporting of plan related financial and benefit information to the Department, and the disclosure of essential plan related information to participants and beneficiaries.

Under ERISA, fiduciaries are required to discharge their duties solely in the interest of plan participants and beneficiaries for the exclusive purpose of providing benefits and defraying reasonable expenses of plan administration. In discharging their duties, fiduciaries must act prudently and in accordance with the documents governing the plan. Certain transactions between an employee benefit plan and "parties in

interest," including fiduciaries and others who may be in a position to exercise improper influence over the plan, are prohibited by ERISA. If a fiduciary's conduct fails to meet ERISA's standards, the fiduciary is personally liable for plan losses attributable to such failure.

Because of the Department of Labor's experience and expertise in the administration and enforcement of Title I of ERISA as it governs private sector employee benefit plans, Congress charged the Department with administering substantially similar provisions of law governing fiduciary conduct for the TSP under the Federal Employees' Retirement System Act of 1986 (FERSA).

THE FEDERAL EMPLOYEES RETIREMENT SYSTEM

In FERSA, Congress created FERS, which generally follows the private sector model of providing retirement benefits through the combination of a modest defined benefit, Social Security, and a 401(k)-like tax advantaged savings plan, the TSP. For Federal workers hired after January 1, 1984 FERS takes the place of the old Civil Service Retirement System. Within FERS, the Labor Department's formal responsibilities are limited to the TSP.

THE THRIFT SAVINGS PLAN

Employing agencies contribute one percent of pay to an individual account for each worker covered by FERS. In addition, covered workers can choose to make pre-tax employee contributions to the TSP that are matched by employer contributions up to certain limits. CSRS employees may also make pre-tax contributions to the TSP, though there is no employer match for these contributions. Each contributing employee directs the investment of contributions to their individual account in four separate index funds and a U.S. government securities fund, known collectively as the Thrift Savings Fund.

The TSP is available to federal and postal workers, Members of Congress, Congressional employees, members of the Judicial Branch, and uniformed service members. Since its inception 17 years ago, the TSP has grown into a large, complex system. For example:

- There are currently more than 3 million participants in the Thrift Savings Plan. The fund balances total over $113 billion.

- The number of participant loans and withdrawal disbursements has increased from approximately 50,000 in 1988 to 685,000 in 2002.

- Total participant inquiries have increased from approximately 150,000 in 1989 to 2,037,000 in 2002.

In enacting FERSA, Congress established the Federal Retirement Thrift Investment Board (the Board) to administer the TSP. The Board is an independent agency of the Executive Branch. It has five members appointed by the President with the advice and consent of the Senate, and an Executive Director, appointed by the Board. The Board's principal statutory duties are to set policies for investment of the Thrift Savings Fund's assets and for administration of the TSP within the requirements of the Act. The Board selects appropriate indexes for the four index investment funds, but does not select specific investments. The Executive Director then carries out the policies established by the Board.

To ensure the integrity of the TSP, FERSA established rules for fiduciary responsibility, prohibited transactions, and bonding requirements. These standards are substantially similar to rules governing private sector pension plans under ERISA. The rules specify that the Board members and the Executive Director are fiduciaries of the Savings Fund. They and other fund fiduciaries must discharge their responsibilities prudently and solely in the interest of the participants and beneficiaries. Certain types of transactions that may create potential for abuse are prohibited unless they fall within an exemption provided in the statute or specifically granted by the Secretary of Labor.

As in ERISA, the Secretary of Labor has broad investigative and auditing authority concerning the activities of the Board and other fiduciaries of the fund. When FERSA was originally enacted in 1986, the Secretary also had authority similar to what she has under ERISA; to bring civil actions against the Fund's fiduciaries for breaches of their fiduciary responsibilities.

In 1988, in response to the lack of available fiduciary liability insurance, Congress amended the Act to specifically exclude suits by the Secretary against the Board members or the Executive Director. Participants and other fund fiduciaries may still sue the Board and the Executive Director, but the 1988 amendments do not permit any monetary recovery against these individuals. In addition, the 1988 amendments treat actions for recovery of losses to the Fund brought by participants and beneficiaries against Board members and the Executive Director as tort actions against the United States, which are defended by the Attorney General. The Department may, however, still bring actions for recovery of losses against other TSP fiduciaries, such as investment managers.

Section 8477(g) of FERSA specifically directs the Secretary of Labor to establish a program to carry out audits to determine the level of compliance with the Act's fiduciary standards and prohibitions on certain types of transactions. Under the statute, the Secretary may either contract with a qualified non-government organization, or may conduct the audit in cooperation with the Comptroller General of the United States. The Department has always elected to contract with a reputable accounting firm. Currently, KPMG LLP conducts the audits under supervision by the EBSA Chief Accountant.

THE THRIFT SAVINGS PLAN AUDIT PROGRAM

The Labor Department's program for fiduciary compliance audits of the TSP is designed to determine: (1) whether the plan's fiduciaries are acquiring, protecting, and using plan resources prudently, efficiently, and solely in the interest of participants and beneficiaries; (2) whether the fiduciaries have complied with FERSA and applicable laws and regulations; (3) whether the desired results or benefits established by FERSA are being achieved; (4) whether the plan program activities, functions, and organization are cost effective and efficient; and (5) whether the Department's previous plan compliance and control audit recommendations have been adequately acted upon.

To guide the auditors, the Department has developed a strategic fiduciary oversight program that uses detailed guides to test for compliance. These audit program guides cover all significant activities of the Fund, including the Board's policy formulation and administration; record keeping functions handled by the Agriculture Department's National Finance Center; functions of Federal agencies related to contributions and employee participation programs; and the CIA's separate system for its employees. The audits include on-site reviews of the Fund's principal service providers.

In response to concerns recently expressed about access to the TSP's website, we are planning in next year's audit cycle to review the TSP's customer service, loan and withdrawal subsystems.

At the conclusion of each audit, the Department issues a report for formal response by the Executive Director on behalf of the Board. The Department's representative and the contract auditor meet with the Board members at least once a year to highlight significant issues from the audit, to present the Department's future compliance audit schedule, and to answer Board members' questions.

The Department's audit recommendations range from statutory matters related to FERSA fiduciary compliance to economy and efficiency issues that may provide cost-saving opportunities for the TSP. Most significantly, the Department communicated many recommendations over several years addressing TSP system and software control weaknesses, which culminated in the TSP Board entirely replacing the TSP record keeping system in June 2003.

Although FERSA does not require the Board and Executive Director to adopt the Department's recommendations, disagreements are rare and generally are due to the timing or the form of implementation rather than to outright refusal. Since the inception of the audit program, the Department has made over 800 recommendations and received 95 percent compliance. The remaining recommendations chiefly address future controls for the TSP's new record keeping system as it moves past its June 2003 implementation. This high compliance rate with audit recommendations is due in large part to the longstanding and positive working relationship between the Department and the TSP service providers and fiduciaries throughout all phases of the FERSA compliance audit program.

However, as you are no doubt aware, there have been some issues about which we and the prior Board have disagreed. These issues arose in the context of the Board's 2001 lawsuit against American Management Systems (AMS) alleging failure to perform

and fraud in connection with its contract to provide new record keeping software. (AMS subsequently filed suit against the Board in the U.S. Court of Federal Claims claiming wrongful discharge.) The disagreements were the decision by the prior Board to retain, at considerable expense to the plan, outside counsel to represent it in this litigation and the accounting of the costs for the failed systems development. Though unable to take direct enforcement action on these matters, the Department referred its findings to the GAO and OMB, and discussed the issues with the Congressional Committees of jurisdiction, including this Committee's Civil Service Subcommittee.

We look forward to working with the recently appointed Executive Director, Mr. Gary A. Amelio, and the members of the Board, most of whom were recently appointed by the President. The new Board has been very cooperative with the Department, and we anticipate continuing a free and candid exchange of views that will greatly benefit the TSP participants and beneficiaries, not to mention helping to fulfill the responsibility of the Department of Labor.

CONCLUSION

This concludes my prepared remarks. Thank you for the opportunity to testify before you today regarding this important matter. We look forward to working with the members of this Committee and the Thrift Investment Board in this endeavor, and I am happy to answer any questions you may have.

Chairman TOM DAVIS. I want to thank you all for being here. I'm going to do my 5 minutes of questions and then I'm going to hand the gavel over to Mrs. Davis, who is the chairman of our Civil Service Subcommittee and also has a keen interest in this and literally tens of thousands of constituents that are caught up in this.

There are a couple of major questions. This is really for Mr. Saul and Mr. Amelio. There have been some severe hardships, as I talked about the guy—I'm going to give you his letter—who lost his house because he couldn't get through. What would you say to a participant now? What are they supposed to do when the Web site is down, the phone lines are busy and sending materials through the mail doesn't get a response? What would you do in that situation at this point? What would be your advice to them?

Mr. AMELIO. That's perhaps the toughest question we'll get today, Congressman.

Chairman TOM DAVIS. Don't say, "Call your Congressman." I mean, we're busy.

Mr. AMELIO. No, I wouldn't do that.

Chairman TOM DAVIS. They're doing it.

Mr. AMELIO. I recognize that. The National Financial Service Center has extended its hours in its call center from 6 a.m. to 6 p.m. I believe that's central time. In addition, the Web site is improving access daily. Once this backlog is concluded of existing primarily hardship—I'm sorry, participant loans and rollover checks, we suspect that the telephone access will improve significantly.

The calls from frustrated participants who cannot access their balances take significantly more time than a routine business transaction, and that's true in the private sector as well as with this Plan. Once we get that backlog through, we believe it should open up the telephone response lines somewhat.

We're also going to review with the Service Center when I'm down there next week, some other alternatives with respect to increased capacity.

There's also the opportunity to provide comments on the Web site, hopefully in a responsible manner, which our staff reviews and has the option of getting back to individual participants.

Chairman TOM DAVIS. But, I mean, you've just been buried on this thing, to start out.

Mr. AMELIO. Yes, sir.

Chairman TOM DAVIS. And it has been so overwhelming. I just wonder, in retrospect as we look at this—and I had some dealings with the previous executive director, who was, frankly, a pretty hard guy to get along with. I mean, you see it by the lawsuits he has filed and the stuff he has—I mean, I don't think they actually had a sense of proportion in terms of how difficult this was, the enormity of the issue, and rolling this out all at once. I just wonder, in retrospect, did we roll it out too soon? Should we have done it in stages? Should we have had both systems up for a while as a backup? I think clearly there was a lot of pressure to move this out because of promises by the previous regime but, in retrospect, how could we have changed this?

Mr. AMELIO. You know, sometimes——

Chairman TOM DAVIS. Recognizing you had nothing to do—I mean, literally the system was put up under a previous regime.

Mr. SAUL. I don't think that's completely so. I mean, I take responsibility for this and I know Gary does, even though we are new on the scene.

First of all, I want to assure you that this system was not just put up willy-nilly . I mean, we spent over $6.5 million in parallel testing that the Board approved. Actually, we approved over $3 million I believe the number was, additional money this spring to be sure that we ran both systems concurrently and that the system would actually work when it was turned on June 16th.

The problem is, as you know, this is an enormous system, very, very complex, and what happens is, even in the parallel testing and in the lab phase, once you get into the real world there are things that happen that we just didn't realize would happen, no matter how much testing we did. And I think that, in retrospect, it was the right decision to turn the system on. Obviously, we don't take lightly all these people, as you mentioned a particular case of somebody that lost their home. I mean, this is really serious business and we realize this is the substantial part of the retirement of the Federal workers and the military, so I want you to be assured that this Board and the Executive Director do not take that responsibility lightly.

Chairman TOM DAVIS. But I guess my question is, in retrospect, as we look back, that June start date, what could we have done differently, knowing what we know now?

Mr. SAUL. You know, I'm not sure that we could have done that much differently. The only thing we might have done is we might have had a blackout period.

Gary, would you like to comment on this, because I know you have thoughts about that.

Mr. AMELIO. I would. We've discussed this and I have received this inquiry from the media and from other experts. I think the only other thing that, when the decision was made, could have been done would have been a blackout period. And you might be familiar with that from some discussions that went on in the media with respect to Enron, where participants were prohibited from trading stock in their account. That goes on normally.

Had we engaged in a blackout period back before this Plan went into daily, there would have been a moratorium for, let's say, a 3-month period, which is fairly standard, whereby participants would not have been able to make loan applications, hardship withdrawals, or make any kind of investment changes, what we call "interfund transfers" in the TSP. That would have impacted all 3 million participants in this case by going up and only——

Chairman TOM DAVIS. We've had a de facto blackout period for some of the applicants right now without one, but I understand what you're saying. I mean, obviously a great reluctance to do that.

Mr. AMELIO. Yes.

Chairman TOM DAVIS. Just the enormity—I mean, what I'm hearing is the enormity of this project. Are you satisfied with MATCOM——

Mr. AMELIO. Yes.

Chairman TOM DAVIS [continuing]. At this point?

Mr. AMELIO. Yes, sir.

Chairman TOM DAVIS. OK.

Mr. SAUL. Congressman, we believe that this system is a good system. There were mistakes made. There's no question about it. We had a lot of problems in the initial startup, but as the numbers that Gary has provided the committee today show, you can see that the backlog is working down. I think you're looking at a 3 or 4 or 5-week period until we get this thing cleaned up, and I think then you're going to have a really good system that the participants and we can be proud of.

Chairman TOM DAVIS. And the last thing I want to say is just, I mean, there is some carnage to some of the participants that's severe.

Mr. SAUL. Absolutely.

Chairman TOM DAVIS. If we can try to give—I mean, losing your house is serious—your existing house, not a new house that you couldn't get, but there have been a number of instances of that. To the extent that we can step in and try to mitigate that at this point, I'm going to give you that one letter. I don't know. I mean, we just need to give priority here to try to—the people that have been the most severely impacted, if there's a way they can get through and get addressed quickly, and then we move on. I think a year from now we may be able to sit back and have a different perspective on this.

I recognize the enormity of this project and the complexity of this project, and I'm not sure the previous Board understood that all when they started to get in and had some very unrealistic dates to try to move it through and got impatient. We can look back at that, and we'll have the GAO go through that eventually and may be able to come back and there can be guidance to other systems but, regardless of that, moving ahead, there is some carnage out there that's severe that we just need your cooperation in trying to mitigate the damage there as we move forward.

I want to thank you all for being here. I'm going to turn the gavel over to Mrs. Davis. Thank you.

I recognize on this side Mr. Jefferson.

Mr. JEFFERSON. Yes. Thank you very much for your presentations.

I want to see if I can be a little more specific than the chairman's question was. If a person today applies for a loan against their TSP account, a loan for whatever purpose, what can that person expect to happen? How might that process work? If you apply today, how long might it be before he gets done with it? How will the Web site work today for someone? I realize there were problems in the past, but I think you are saying they have been reduced substantially and now they would have a different experience. What would that experience be?

Mr. AMELIO. Generally speaking, Congressman, in an ordinary circumstance an individual participant in the TSP that would make their loan application through the Web I believe could generally expect to receive processing and a check directly deposited or a check received within 7 to 10 days, and that would be actually, I think, very standard in the industry amongst the most accelerated kinds of participants.

What happened in this particular circumstance, if I may go on and elaborate on this answer is, where these hardship cases that

we're hearing about come up, the TSP is a particularly generous plan by national standards. It permits participants to have two outstanding loans at a time. You don't typically find that in a defined contribution plan. It also permits a participant to repay either loan at any time and then immediately thereafter refinance another loan.

What happened here, the cause of the delay was many of these participants, a few of whom I've actually spoken to directly on the phone—I've taken a few calls, myself—they were attempting to repay one loan and immediately get another loan, and they were doing it during this conversion process when we were moving from the old paper system onto the new daily system and had to resubmit new forms and got caught up in the backlog.

Mr. JEFFERSON. But today—I realize these problems you're talking about happened in the past, but today a person could experience 7 to 10 days from the time he applied to the time they'd get a response and get the matter resolved? Are you saying that could happen today, and routinely happen?

Mr. AMELIO. I'm saying it should. It may not. Once this backlog gets cleaned out it should work that way. And we're also assuming there's no special circumstances—for example, someone trying to pay off one loan and immediately——

Mr. JEFFERSON. See, the features you're talking about, about paying off loans and the multiplicity of loans that are authorized, these are features of the program. These are not new ideas that this system encountered for the—when you put the system together, you knew these were already features and therefore it should have accommodated to them, and so I'm just trying to see now whether we've resolved it enough.

You said there's a smaller number of people involved, out of 3 million some very small number that have experienced problems. Now we've reduced that. I'm just trying to see whether we're back to regular order now or whether we still have these problems so we can know where we're going forward.

You say in the next 3 months or so we expect—if we can't do it today, you're saying the next 3 months we'll have this thing resolved where in 7 to 10 days if somebody applies they'll get the loan, routinely get it in, get it out, and it will be done?

Mr. AMELIO. I think 3 months is way on the high side. I think within the next few weeks we're going to——

Mr. JEFFERSON. The next few weeks?

Mr. AMELIO. Yes.

Mr. JEFFERSON. That's real good news.

Now, the last thing is: what is the reason for the slowness at the Web site? I understand you've got a backlog and all that, but does this Web site have some inherent problems of speed? What's the bandwidth involved with this thing?

Mr. AMELIO. I'm the last person that should be commenting on IT technical issues, but I will make an attempt to put into English what our IT folks have told us. You cannot anticipate every single problem, and some of the slowness in the system is coming from the overwhelming capacity right now. The purpose of your remarks was to highlight for the Members the incredible increased activity into the Plan that had never before existed. As we've indicated, on

20 of the last 40 days there has just been an overwhelming number of transactions which far outstrips anything the Plan has seen before.

The Plan was set up to handle approximately 50,000 transactions per hour, which itself is a staggering number, and we could perhaps do that if that's all we were looking at, but we're just flooded. Since we've gone daily, all these participants now have a new heightened awareness.

Mr. JEFFERSON. I realize I may be asking questions that you don't have the technical responsibility for, but one last little thing. What about those people who used the old paper application and who are still waiting for approval? They're not people who are going to come today and apply through the Web site; they have an old paper application and they're waiting for approval. What about those people?

Mr. AMELIO. As I indicated in my remarks earlier, Congressman, on the first loans we have cleared all of the repayments of the first loan, which now opens up all 7,000 participants to have their next loan processed. And right now there are—just bear with me for a second—about 13,000 new loan applications, and 6,500 of which we plan on clearing this very evening. That's almost half right there. And we believe all of those to be within this 10-day window.

Mr. JEFFERSON. Thank you. I appreciate that, your answers.

Mr. AMELIO. Yes, sir.

Mrs. DAVIS OF VIRGINIA [assuming Chair]. Thank you, Mr. Jefferson.

I have a question, and I don't know who wants to answer it, but were there any options similar to those submitted by the Federal Managers Association representative considered before launching into this new system?

Mr. AMELIO. I'm advised we haven't seen those.

Mrs. DAVIS OF VIRGINIA. So you didn't have any other options other than the one you went with? Is that the only——

Mr. AMELIO. We haven't seen any options presented.

Mrs. DAVIS OF VIRGINIA. OK. You know, it's one thing to have a problem with people getting answers on electronic transaction requests, but how do you explain the folks who have sent it by regular postal mail? I have constituents that sent things in by mail that haven't been responded to.

Mr. AMELIO. We're working through the backlog. It's just a huge volume, and, you know, we're not staffed up for it. We're an incredibly lean operation, as has been mentioned. The expense ratios of this plan are about 7 basis points, compared to about 120 basis points that you would find in the private sector. It's a lean, meanly run plan and we're getting to it, but it's just a matter of working through the backlog.

Mrs. DAVIS OF VIRGINIA. I'm advised you probably didn't see what the Federal Managers Association suggested, and since they haven't testified yet—they're next—maybe you can tell me what you think of testing before launching the system, grandfathering the loan application system, notifying participants about the changes, providing detailed contact information for troubleshooting, allowing old and new systems to run parallel until all kinks are re-

solved, providing adequate customer service staffing and support, and keeping participants informed. Did you do any of these things?

Mr. SAUL. Well, first, let me assure you, as I said to Congressman Davis, we spent over $6.5 million parallel testing this system. This was not just turned on and said, "Good luck, let's see what happens." We went through a tremendous amount of testing over months down at the National Finance Center. But the fact is, when you go live with a system of this size and this complexity, there are things that are bound to occur that in a laboratory and testing you just don't see, and there were things that we did not anticipate.

For example, the first couple of weeks, which really set us back, the Web access was very slow. We were only able to get about 3,000 to 5,000 hits on the Web in the first initial week or two of the system.

Mrs. DAVIS OF VIRGINIA. Why was it slow the first week or two?

Mr. SAUL. Technology problems in the system. However, what has happened is, in the last 2 weeks now we are up to processing up to 60,000, which the system wasn't even really designed for. It was designed for 50,000 transactions an hour. So by working through the bugs and working through the IT problems, we were able to clear up the Web, so that's tremendous. I mean, I was on the Web yesterday, Congresswoman, in Mr. Amelio's office, and we went out at 2:30 p.m. which is the height of high congestion, and we were on within 1 second. We went right onto the Web access, Gary's account. And we have a demonstration, as a matter of fact, for those that want to stay around and see it, where you can put your own PIN number in, Social Security number, and access the Web right here and you'll see how quickly it goes.

Yes, there were problems in the beginning. And what happens with a system like this is, no matter how much you test it—and we did tremendous amount of testing—you just don't foresee all the problems.

Mrs. DAVIS OF VIRGINIA. And I hear what you're saying, and I use the Web to access my account to see what the balance is and it takes me a very few seconds, but I'm not like a lot of my constituents. I don't go on there for loans and I don't go on there to transfer things around and all. And I do associate myself with you, Mr. Amelio. I'm not probably one to be talking about IT because I can turn it on and that's about it. But I guess I have a real problem understanding $6.5 million parallel testing, and I think your testing showed that you could do 50,000 hits. I have a hard time grasping what the problem was that was $6.5 million to test it, and then the first week you turn it on it doesn't work.

Mr. SAUL. You know, again, I'm not an IT person. All I can say is that through all the testing certain problems did not come out in the testing arena but when the system went live they were there. But I think the important thing is to note that going forward we believe within 3 to 4 weeks—we showed you the numbers on the backlog. They have been worked out substantially. We believe in the next 3 to 4 weeks, as we go along and thereafter, you're going to see a system come out of this that we're going to all be very proud of, and we will eliminate all these technological bugs and are eliminating them and it's getting better every single day.

We just have to have some patience here with the system. That's the bottom line.

Mrs. DAVIS OF VIRGINIA. It's hard for our workers to have patience when you're talking about their money and their homes and their livelihood.

Mr. SAUL. I understand.

Mrs. DAVIS OF VIRGINIA. It's tough.

Mr. SAUL. But you know what happens? Look, the Board—the most important thing for us is the fiduciary responsibility of the employees' money. We understand that and I agree with you totally and we don't dismiss this, we don't take this lightly. But, unfortunately, what has happened is, as we had these problems, it bogged down the system. What happens is it feeds on itself, and as we alleviate the backlog of this paper, as Mr. Amelio described to you, I think you're going to find the help desk, the Web site, everything become freed up for normal business. The thing bogged down. It was just overwhelmed in the beginning.

As we work through these problems, I think what you're seeing now, what makes me feel confident in the thing is every day as we go along now the problems are alleviating themselves. It doesn't mean—and I assure you we don't take lightly some of these disaster stories that we're hearing about, and I believe the Board will have to look at some of these cases in an individual way and take a look at them, but we are now seeing a vast improvement over where we were a month ago, and I think that will continue until the system is up to where it should be.

Mrs. DAVIS OF VIRGINIA. I appreciate that. And I don't want to step on my colleague's time, but I do want to ask quickly a question for Mr. Lebowitz. What changes do you think could be made to improve TSP accountability?

Mr. LEBOWITZ. Well, I think when we look back on the most recent period, ultimately the issues where we and the Board had some disagreement were ultimately addressed. The process is not all that clear as to how it is supposed to happen, but it happened. It happened after we made our views known to the Board and to the staff, made our views known to OMB and to GAO, and then came up here and talked to staff people from this committee's Subcommittee on Civil Service, and on the Senate side, as well.

Aside from that, over the years that we have been doing audits since 1986, we've really not had any areas of concern in terms of responsiveness from the TSP Board or from its staff. They have been very responsive. So I don't really have any specific suggestions at this point. I know we'd be happy to work with the committee to develop and give you our views on some specific ideas to the extent that you'd like us to.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Lebowitz.

I'd now like to turn to the ranking member of our Subcommittee on Civil Service, Mr. Danny Davis.

[The prepared statement of Hon. Jo Ann Davis follows:]

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Congresswoman Jo Ann Davis (R-Va.)
Chairwoman, Subcommittee on Civil Service and Agency Organization
Opening Statement, Full Committee Hearing
"The Thrift Savings Plan: Putting Customers First?"
July 24, 2003

Before I begin my brief remarks, I would like to thank Chairman Tom Davis for holding this hearing. The persistent problems facing the Thrift Savings Plan's new website are serious, and they deserve the serious attention afforded by a Congressional hearing.

The last two years have been trying for the Federal Retirement Thrift Investment Board. But I am not so much interested in rehashing the board's recent history as I am in receiving assurances that the board and the TSP are moving forward in a direction that will help restore trust among the federal employees and retirees who depend on its services. That trust is important. The Thrift Board is the protector of more than $110 billion in retirement assets for more than 3 million customers, and it must live up to that awesome responsibility.

This is the beginning of a new time for the TSP. The thrift board has a relatively new chairman and this year hired a new executive director, and I sincerely hope Mr. Saul and Mr. Amelio will be able to provide us today with some good news.

Because – and let me make this clear – the current situation is simply not acceptable. TSP customers ought to have immediate account access, as they were promised. They should not have to worry about whether their loan requests or fund transfers have been properly received and accounted for. And if there are problems, they should be able to get them resolved easily and quickly, rather than becoming frustrated after weeks of delay and non-answers.

Our public servants deserve much better.

Thank you.

Mr. DAVIS OF ILLINOIS. Thank you very much, Madam Chairwoman.

Mr. Saul, we know that hindsight is often different than oversight, and that with hindsight you can sometimes make some assessments and understand some things better than you understood them before. In your opinion, who was responsible for the problem with the AMS contract? Was it the contractor or was it the agency's management of the contract, or perhaps was it some of both?

Mr. SAUL. Congressman, as you know, I took over as chairman of the agency after Senate confirmation in December 2002. At that point in time, as you know, the agency was imbedded in various litigation that I think was embarrassing not only to the agency but to a lot of people here in Washington and government. Also, this litigation was taking a tremendous amount of time, and I think taking the focus off our staff and providing a first-class retirement system for our employees. So the Board and I took a very, very serious look at this thing and, for the reasons that I said in my presentation, we felt it was very important to re-engage the Justice Department and to resolve this matter and put it in the past.

Obviously, I wasn't here and I'm not shifting off blame by making that statement. I was not here to see what happened and I really can't comment. All I can tell you is, it was a pretty bleak picture, and it certainly was nothing for this agency to be proud of. But at the point in time that we came in, the new Board and Mr. Amelio, the most important thing for us was to get this behind us, go on, get the new system in, and get the agency focused back onto being a first-class retirement system for our Federal employees and the military.

Mr. DAVIS OF ILLINOIS. But in order to take corrective action and to try and prevent from reoccurring or from ever happening again what had taken place, are there some things that you think that the former Board could have done differently that may not have gotten us to this situation that we can certainly now take advantage of and make use of those experiences so that we don't have to go down this road again?

Mr. SAUL. I can only comment on the experiences that we're now having with the new system development with MATCOM. I wasn't there, as I said. I don't know what went on with AMS and the other Board and the other executives at the agency. However, I can tell you I felt that, when we came in in December and we reviewed—meaning myself and my fellow Board members—the MATCOM situation, which is the new contractor, and we spent extensive time with our staff, with the technical people, we felt this was a system that was worthy to go forward with. It was way along in development; it was 4 months from going live, or 5 months from going live. And the one thing that myself and my fellow Board members did was to be sure that we spent enough money parallel testing, to be sure that our people in the National Finance Center had the necessary support so we didn't have a debacle, because we realized what a huge undertaking putting this new system in was.

So I think, to answer your question, it is a matter of monitoring what goes on, to be on top of it. And, unfortunately, look, as much as we were on top of it, as much money as we spent, we've made mistakes, too. I mean, there's no question about it. You can't say

we haven't. There has been serious disruption. But the important thing is, here, as opposed to the AMS situation, the MATCOM, I think we have a very—I know we have a very good system that's going to do the job that we spent the money on, and if we are patient with it—and I know it is tough to say "patient" when people are having all these kind of problems—I think we will get what we want. AMS, from my understanding, the system itself was flawed from the beginning.

Mr. DAVIS OF ILLINOIS. Thank you.

Mr. McPherson, what steps are you taking to assist the agency, some of the concrete things that you are suggesting and recommending and working with them to work through?

Mr. MCPHERSON. Well, a number of actions specifically. Because the lines of communication with Andrew Saul and Gary Amelio and their staff and their contractors are very good, we're able to give very specific suggestions and take actions on a continuous basis, things such as specifically, in the area of data entry, which is key to handling the transactions, we've expanded the day shift to run from 6 a.m. to 6 p.m. We've established an evening shift from 7:30 p.m. to midnight. On the data entering of checks, the Board has hired some additional contract staff. We've expanded some of the telephone service. We've proposed to the staff an increase in incoming thrift line capacity, things like suggesting commercial capacity from 375 lines to 900 lines and expanding the telephone service hours effective July 23rd, yesterday, from 7:45 a.m. to 4:40 p.m., and hired additional staff. So there have been a number of things from the operational work flow, particularly from the men and women who are doing the work using the system that we've taken very quickly, and that's the way we have been working. It's a very good, healthy working relationship and support them together to get out of this posture and restore service as quickly as possible.

Mr. DAVIS OF ILLINOIS. I am, indeed, pleased to hear that, and I thank you very much, Madam Chairwoman.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Davis.

Ms. Watson.

Ms. WATSON. I am just learning this system. Thank you, Madam Chairwoman. I'm going to take the information, and I think my colleagues are raising the pertinent questions, so this is an educational session for me. Thank you for coming and responding.

Mr. SAUL. Thank you.

Mrs. DAVIS OF VIRGINIA. Thank you, Ms. Watson.

Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Madam Chairwoman. I want to thank all of the witnesses for being here this morning and Chairman Tom Davis for calling this hearing.

I represent an area right outside of Washington, the Eighth District in Maryland. We received sort of an emergency alert from our District office in Rockville just a few days ago saying that they wanted to make me aware of how serious the TSP problem is for our constituents. I'm receiving an average of 8 to 10 letters a day talking about very serious situations. I have a couple of letters here from constituents. One is a retired Marine Corps officer who says his home is in foreclosure, he's desperately trying to seek access to his TSP funds. They say there's nothing they can do because of

some new computer program. I managed computer programs that paid veteran benefits. I know there are ways to ensure people get their money.

There's another person who had been planning for a long time to buy a house, tried to access TSP funds for the purposes of the loan, and is unable to do it, and he says, "The contract has to be placed on Wednesday, July 23, 2003—" this is yesterday. He has been working on this issue since May. He ran into problems in June. The computer system told him one thing 1 day and another thing. The next day the information was gone.

This really is an urgent, urgent matter. I guess I apologize for being a little late after Chairman Tom Davis' opening statement and some of the initial questions, but one question: is there any kind of triage system? I mean, there are some people who clearly need access now. I'm sure there are many, many people requesting loans. But do we have a system that can help people who are really in emergency situations? And if not, who do we deal with? I mean, because it should not be the case, and it is the case apparently that the only way to get through is through their Member of Congress. I mean, people are trying to get on the phone lines directly, just can't get answers to their phone calls. They can't get through so they are calling Members of Congress. We're trying to work through these problems, but there's a lot of frustration out there. I guess my immediate question is: there are some people who have problems today, like July 23rd, Wednesday, and the next coming week. How do we deal with them as a priority matter?

Mr. AMELIO. Congressman, that's one of the sticky wicket questions. I have given the numbers with respect to the declining group of the hardship cases that we're working on, and we believe that all of those cases that have become significantly delinquent are being cleared out. In fact, I gave the distinction to the committee between those paying off their first loan and refinancing their second, which might be the case you're talking about, and that they should all be brought to date in a very, very short order.

As a general comment, there is no special treatment of any participant. I've only been down here a few weeks, and the first thing that I've become aware of are all the ethical rules that we're all required to follow, and by and large things are processed as they come in and as folks get through the Web site and through the call center, and there is no special prioritization for someone who has a hardship. As you can imagine, everybody has a—their situation is a hardship in their own mind, and many of them are, but there is no special process for someone who might be losing a home versus someone who is paying tuition, education. I believe we might actually be violating the law if we tried to give special preference to certain participants.

I'm on weak ground when I say that, but when I've raised that issue with our General Counsel's office, I believe we have to treat all the participants equally and fairly.

Mr. VAN HOLLEN. I guess the issue here is there are some people who began—tried to access the system a while ago. They were not able to get through, or for some reason they accessed the system before some other people and their information was lost. I just—who is dealing with this sort of at the personal level? I mean, it

seems to me, given this emergency situation, have you rededicated certain staff to dealing with these on a manual basis, because I think we've really got to step up, maybe bring in some—I don't know what resources you can bring to bear, but a lot of people are facing very serious situations. A lot of people are unable to go through with their transactions today, tomorrow, and the next day. And I'm just trying to get a sense from you as to how we make sure that people's long-term plans don't collapse because of a computer problem.

Mr. AMELIO. We have rededicated a variety of resources to resolving the problem of these hardship cases. The center in New Orleans has rededicated a lot of its existing staff toward resolving these problems, whether it is by answering the telephone, as well as substantially in doing the manual data input which was created by this backlog to get these situations resolved. In addition to the substantial resources that the Service Center is throwing at it, we have supplemented that on a temporary short-term basis by engaging our outside vendor to open in two separate geographic locations backup support for the limited purpose of doing manual data input into the system to resolve the backlog.

As a result, and as I mentioned a little bit earlier, the backlog—and most of these hardship cases come from participants who have two outstanding loans and who are trying to repay one and refinance a second. We have now finished completely, as of this morning, entering the data that would enable the records to be updated for all participants who are paying off their first loan. That's down to zero right now. And that will now enable about 7,000 of these participants to go ahead and apply for and get approved a second loan, which should take, you know, in the 5 to 7 days to actually get the proceeds, which is ordinary business cycle. And we have, out of about 13,000-some applications, I believe 6,500 of those applications will be cleared this evening and the processing will move on.

So this backlog and these hardship cases should disappear in the very, very short-term future here.

Mr. SAUL. Congressman, I'd just like to add something, please. What happened is we didn't just sit around, obviously. When we saw this backlog getting to the situation that it was in, we said—as Mr. Amelio stated, we set up two separate remote sites from New Orleans from the National Finance Center to help us cut through this backlog. Unfortunately, the mistake that was made here was that we probably waited a week or so too long to set up these backup sites so that the situation became dire when, if these backup sites were set up probably a week or 10 days before that, we wouldn't have had these severe hardship cases that you're talking about. But since we set up these backup sites, if you look at the numbers that Mr. Amelio gave today—and they are statistics. They're not—you know, you're dealing with real people, and I understand that—I think you will find that a lot of these problems have been resolved and we are really getting current now.

But I want to assure you that we just didn't sit there and let the situation erode. We spent a tremendous amount of money and a lot of effort to set up these two remote sites that Mr. Amelio mentioned in his statement.

Mr. VAN HOLLEN. Thank you. I look forward to working with you in the days ahead to make sure that we can resolve these particular cases that are coming to our attention.

Mr. AMELIO. Thank you.

Mr. SAUL. And we don't take this lightly. I want you to understand that, Congressman. I mean, this is serious business and we understand that.

Mr. VAN HOLLEN. Thank you.

Thank you, Madam Chairwoman.

Mrs. DAVIS OF VIRGINIA. Mr. Van Hollen, if you wouldn't mind, I'd like to hear Mr. Lohfink answer your question.

Mr. LOHFINK. Thank you. How are we dealing personally with the tragedies and the issues that are facing our participants? We're dealing with them with every available ounce of energy that the people have. We've added staff. You've heard that. We've added hours. We continue to work through all the data entry issues with the backlogs. I believe, just to give you an idea, now that system performance is being obtained, to give you just an idea, the first 31 days, in spite of all of the people we threw at it, we were only able to process about 38,000 transactions in those 31 days. Now that the system is responding well, we're able to process 50,000 transactions in the last 7 days. So what you are able to, I think, see through those numbers is that now that system responsiveness and availability issues are, for the most part, behind us, we now have an ability to respond promptly and effectively with the participants.

Mr. VAN HOLLEN. OK. Well, I hope it is prompt and effective because, as I say, I've got some cases that we were—in the last couple days have come in, and so they haven't been dealt with yet and we need to resolve them quickly. These are people who are facing very serious situations.

Thank you.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Van Hollen.

Mr. Clay.

Mr. CLAY. Thank you, Madam Chairwoman. And let me thank the panel for being here today.

Let me share with you a case of one of my constituents in St. Louis, MO, who wanted to borrow money from herself, money that she had saved because she wanted to buy a new house. She applied to the TSP for a loan; however, the promised loan packet containing all of the necessary documents to process the loan never arrived. She called the TSP and reported her concern. The TSP in response asked her to complete a form and fax it back to them to report the error. She immediately complied. The error report was filled out and promptly mailed back to TSP marked "priority mail."

Ten days later she still had not received a verification. She was told that her application could not be found and was advised to resubmit.

The constituent did as she was advised and faxed the copy of her previously mailed application. She followed up by calling the TSP to verify that they were in receipt of the information. The TSP representative indicated that they were in receipt of the requested information and would walk it over to the processing department immediately.

When asked when the loan would be disbursed, the reply was, "July 3, 2003, or sooner but not later." She scheduled a closing date based on her communication with TSP, and the dates passed without receiving a check. On July 1st she was told that the loan was approved and it would be disbursed on July 2nd or 3rd, 2003. On July 3rd, 2003, she was told that TSP was in the process of changing the computer system and that her loan would be processed under the new system. She was later told that her loan could not be processed because there were two applications on file.

She first applied on May 19, 2003, and still has not received her loan.

To make matters worse, you know, many participants have complained that too often the TSP phone lines have been busy and attempts to send applications via U.S. mail to your office have also yielded no response.

I guess the question is: is there a real problem with customer service? Do you need more staff? And is this a lack of manpower issue? And anybody on the panel can try to tackle it.

Mr. AMELIO. Congressman, we don't believe there is a manpower issue, and there's certainly not a systems issue here. This is a problem that was created—it's operational in nature—as a result of the conversion of such a massive plan and going from a paper-based submission system into the daily Web environment. A backlog has been created. This individual is one of those folks that got caught up in it, 1 of about 9,000 individuals that got caught up. We're working through the backlog, and within the next couple of weeks that backlog will be completely eliminated. I say a couple of weeks because we want to set the expectation bar higher. We're hopeful it will be in substantially less time than that.

We're not claiming that there's any shortage of resources; it's a matter that it was a massive undertaking. This was one of those glitches in the system, and we're trying to work through it, and we will. We're almost to the completion of that process.

Mr. CLAY. Mr. Amelio, the online system, I mean, is one thing, but what about the problems that this constituent had getting faxes through and dealing with the U.S. mail? I mean, what is that indicative of in your shop? I mean, if they can't get through by mail or fax, I mean, and she's not trying to go on line, but she's trying to access customer service. I mean, what is that indicative of?

Mr. AMELIO. She's gotten caught up in this backlog. It's just a huge influx into the system as we've gone daily, what's called in the industry a "spike period"—a lot of high visibility, 3 million participants looking at this new system, everyone trying to get on the system at once to see how it works, and it has resulted in a huge backlog that's generated. Once we work through it, we anticipate these kind of problems will dissipate and won't exist any more.

Mr. CLAY. Thank you very much.

Mrs. DAVIS OF VIRGINIA. Mr. Carter, do you have any questions?

Mr. CARTER. Yes. Thank you, Madam Chairwoman.

I have a lady. You're hearing these horror stories, but this lady heard about this hearing, we were in the process of helping her, and she specifically asked that I talk to you about this. Her name is Mary Atwood. She's in Bassdrop, TX. She works for the IRS. Mary made an application in May for a loan to move her mobile

home off of a more-expensive piece of property to a piece of property she could afford. She's having a lot of financial trouble. She was told, "No problem. Five to 7 days we'll have this processed, so you don't have to worry. You have plenty of time until June," when she had to move it. Well, she heard nothing. She made phone calls and couldn't get answers. On June 9th, she called back and they said they were having computer problems but it would only be another 5 to 7 days.

She borrowed the money to make this move from her church because she was now off that property, with an easy promise that certainly by the end of the month it would be there.

On June 17th she called and they told her she never made an application for a loan, that she would have to re-apply, so she re-applied again, another promise of 5 to 7 days.

She called the hotline. She talked to individuals. Always the promise of 5 to 7 days. At the end of 5 to 7 days, again, "You never made a loan, never made an application." She redid it again. At that time she contacted my office. By July 11th she contacted my office. My office began to experience exactly the same response as this individual did—people who didn't know what we were talking about, didn't know which individual could help us, and ultimately the person, a lady named Jeanette, actually worked on it. Her first response was, "The lady never made an application for a loan."

OK. We pressed her further. She went back in and ultimately found out she had actually made three applications for the loan. At this point in time she is living on a property without hot water with her small child. She's a single parent. She has used all of her resources. She owes her church for the cost of the move, and as of yesterday there was still no response from you on the application of the loan.

Now, I've listened to what you have to say about computers, and, you know, I used to work for the State government of Texas, and I used to be a district judge, and I've heard people blame computers a lot, and my question is always the same. This Government ran a long time without computers. We took care of people a long time with paper pushing. And if you're going to have to shut down a computer and you're going to have it shut down for a period of time, it starts harming people's lives and people get foreclosed like there, then why can't you push the paper like we used to and go back to having an alternative system that at least takes care of people in this kind of desperate situation? And why make promises that you know you're not going to keep and cause people to be put in a bad situation?

Why not say, "We think we can process it in 5 to 7 days, but we're having a hard time and it might—this whole system might collapse, lady. You'd better look some place else." At least she has been told, instead of keep dangling 5 to 7 days out for three applications and being told. To me that's breaching a fiduciary relationship you never with your customer by telling them something that you know you're not going to perform on.

And then, after all that comes to our Round Rock office, my chief of staff gets a notice from your organization that tells him, "Your withdrawal request is denied." Well, the problem is he never made a withdrawal request and he wants to know who is making a with-

drawal request on his account. And he tried to find out, and they couldn't find out who had made a withdrawal request or really they couldn't even find a withdrawal request. Well, you know, that's the idiot computer talking on its own, I'm assuming. But, you know, it panics you when somebody says the withdrawal request on your account is denied and you're the only guy that's supposed to be withdrawing and you didn't make such a request. You're wanting to know who is making that request on your account.

So these are the kind of glitches that seems like to me humanity can take care of if you get a little more humanity in your customer service, and that's kind of what I wanted to know. Where did we fall down by treating humans like humans and not let the computer treat them like other computers? That's what irritates the hell out of me when I see that.

My lady is still out there in Bassdrop without hot water, and I'm going to give this to you, and I'm expecting to see something done about it.

A couple of other questions. This online system, does it provide participants with timely information like the timely information I was just talking about that the computer may be on the glitch and it won't be 5 to 7 but 10 to 20 days? Is it going to give timely information out to the status of loans and applications? Is it going to be—now is it capable of doing that? And if the computer system is telling someone 5 to 7 days, is it going to be backed up with an online system that says, "We're processing your loan. It will take 5 to 7 days"? Is it now up and working? You said it is. Is it?

Mr. SAUL. Congressman, may I address some of your concerns, if I might, please.

First of all, I think you are right to be upset, and certainly this lady has suffered, like some of these other people, some real hardships here.

Mr. CARTER. Yes.

Mr. SAUL. And it was not—we have not come here to blame the computer, as you said. I really don't think that the technology is——

Mrs. DAVIS OF VIRGINIA. Excuse me, Mr. Saul. Could you pull your microphone up a little closer to you? We can't hear you.

Mr. SAUL. Yes. I don't think that for the most part this is a technological problem. I think we got buried by a tremendous amount of manual data that came in during the conversion that had to be inputted into the system, and I think you're right. I think you really hit the nail on the head, Congressman. It is a people thing. I think where we failed is, we did not have enough of the backup support to be able to enter a lot of this paperwork into the system.

If you go on the system right now, as I did yesterday, this morning, you go into the Web site, you'll get instant access. It is unbelievable how fast the thing works, considering what's going on. The problem is we got buried by a ton of paperwork, and, using your words, the old human way, that's where this thing has failed.

And what we have done to address these problems—and we did not take this lightly, I assure you, this is a disaster, what we have done is contract two separate human sites away from the National Finance Center to help them get through this tough conversion period and get us caught up. We have a site down here in Virginia

at MATCOM, who is the software manufacturer for this system, and we have a site down at Sun Guard in Birmingham, AL, another one of the component manufacturers to the system. Because we set up these other two sites with human people there entering the stuff, we have been able to give you the report that we gave you today showing that these loan application delays have really virtually gone down to zero.

The mistake that we made—and I accept responsibility for it—is when this thing was backing up the paperwork part of it, we did not throw enough resources. And when I say "resources," meaning going out at that point and setting up these extra off-center sites of human beings that were able to enter the stuff into the system.

So I agree with you. I don't think this is to blame the—yes, there were glitches in the technology. The Web started slow when it came up. We corrected those problems. We've identified 170 bugs in the system, but nothing that's going to take the system down or make it crap out. So these problems are being addressed step by step. But the problem we have was, you're right, a human problem. We just did not have enough people to enter all this paperwork. And we're getting on top of it now. It's not going to help this lady down in Texas at this point, you know. She's suffered a lot. I hope she's in this group that have been cleaned up now and that she's now in the system. If not, we're going to have to address this thing.

But no apologies for this. I think this thing was screwed up. We should have done a better job on this initial data entry conversion thing. But I don't want you to think that this is a technological thing or we're blaming technology on it.

Gary, did you want to say something?

Mr. AMELIO. I would like to add something, Congressman. I don't in any way mean to trivialize any of the individual hardship cases that we've heard today. They're tragic, and I wish that I could personally do something to help each one of those individuals. It's terrible. But what happens in a circumstance like this is things get taken out of context, and we've got some of these real horror stories, and it sounds like there's this crisis. And, as I mentioned in my text—and I know you've been here since the beginning and you've patiently listened to all of this testimony—we've got over 3 million participants, and we are talking about some egregious circumstances, but it is a limited number. We brought this Plan literally into the 20th century. If you look in the private sector, whether it is for-profit corporations, Taft-Hartley funds, or even the nonprofit world, which you're going to hear about a little later, they've all been daily for the last two decades. This Plan has been operating in the dark ages in the sense that it was not daily. And that's not a criticism; it's just such a huge process to move it onto daily. This had to be done, and I think it was done appropriately. I know there has been some very significant damage to some individuals, but if we try to take this thing off daily you'd be looking at 2.99999 million participants I think that would get incredibly aggravated. I think they probably are pleased for the most part with what is going on. And, of course, they're not being highlighted because they're not the, I guess, you know, making the squeaky wheel right now. It's these egregious circumstances. We're trying to deal with them. Believe me, we want to get them cleared up.

Mr. CARTER. I understand that, but when your baby takes a cold shower every morning it's very important to you.

Mr. AMELIO. Yes, sir.

Mr. SAUL. It is.

Mr. AMELIO. Yes, sir.

Mr. CARTER. Thank you.

Mrs. DAVIS OF VIRGINIA. If my colleague will bear with me for a minute, just to followup on Mr. Carter and Mr. Clay, hearing both of them say that they have constituents who filled out loan applications and they're told they are being processed, and no, we don't have it and do another one—and I'm assuming these are hard copies and not on the computer—and our committee staff has heard complaints that the old loan form available on the TSP Web site was being disregarded if it was submitted after June 1st and no notice was given to the people, so people thought they had loan applications in because they used the old form, and apparently instructions were given to the staff maybe to ignore those loan applications. I guess I want to hear an answer to that from Mr. McPherson or Mr. Lohfink.

Mr. MCPHERSON. Well, I'm going to ask Jerry Lohfink to address the timing of any shift in forms and the communications from the Board to the National Finance Center as to the processing within these particular windows.

Mr. LOHFINK. Following direction from the Board, when the system came up June 16th we were instructed not to process old forms. Basically, the old forms did not contain the data layout necessary to enter into the new system. At that time, we were directed to instruct participants to then submit a loan application on a new form, so we—that is exactly what has transpired which has affected people, that the data from the old form, you can't transcribe over. There's missing components. So in order to process within the new system, we needed to have all of that data.

Mrs. DAVIS OF VIRGINIA. And I'll just say, Mr. Lohfink, for the people who are trying to buy houses, my prior profession was a real estate broker, and I can tell you that wouldn't hold water with not being able to go to closing because your bank or what have you changed forms and you've got to start all over again. So I think that's a pretty weak—I know it's the accurate response, but I think it is pretty weak, and I think it is really unfair to participants.

Mr. Tierney.

Mr. TIERNEY. No questions, Madam Chairwoman.

Mrs. DAVIS OF VIRGINIA. I have one final question. One of the staff just went to try and access the account on TSP and it says, "Due to system maintenance, this part of the TSP Web site is currently unavailable. We apologize for the inconvenience. You may still be able to check your account balance by clicking on the link below or you can try back again later." Why are we doing maintenance in the middle of the day between 11:30 a.m. and 12?

Mr. AMELIO. We have to ask the "techie" here. Excuse me.

Mr. SAUL. We don't know. The only thing we can say—I just talked to our manager of IT, and the only thing he said is that it is possible that for a moment the system was down, but if they go back in again it should be back up. We have no understanding or knowledge why at that particular time that would happen. If we

try it again let's see. Maybe there was a moment that it was down for some particular reason, but if we try it again it should work.

Mrs. DAVIS OF VIRGINIA. Well, we're going to go ahead and go on and try and start the next panel, and maybe in the meantime we'll get the staff to try and access this again.

Mr. VAN HOLLEN. Madam Chairwoman, if I could just make one final point.

Mrs. DAVIS OF VIRGINIA. Sure.

Mr. VAN HOLLEN. On that issue, you've raised a point. A lot of people put their applications in a while ago and then were later told that they had to put a new application in. Now, how come that person who may have applied earlier and has been waiting months is now farther back in line than somebody who applied for a loan more recently. Isn't that right? I mean, that's—a lot of people, they applied originally. They said they were assured no problems, it's going to go through.

Mr. SAUL. It's possible. You're right. It could happen.

Mr. VAN HOLLEN. So, I mean, you've got to go back and find these people who have been sitting around for a long time. I just want to—one other thing. There's a constituent who had been assured, "No problem. We're going to be able to get this processed very quickly," who, on the basis of that assurance, went forward, signed the contract, and therefore was obligated to come up with the funding. And as a result of the failure to be able to access the funds, was forced to put, instead of 5 percent down—they couldn't put the 5 percent. They had to put 3 percent down. They had to "borrow money from my family, sell what few stocks I had saved, and put toward my retirement, and raise the extra cash on hand for closing. For the next 30 years I am paying a higher mortgage interest rate and additional finance charges for my home because of the TSP shutdown," and the person goes on and on.

I don't know. It's a long-term issue how you are going to deal with people who were essentially promised that their loans were going to be processed on time who, as a result of that, have suffered financial damage. I guess we're going to be living with that issue possibly for a much longer time.

I thank you, Madam Chairwoman.

Mrs. DAVIS OF VIRGINIA. Just before I let you guys go, a closing question, Mr. Lebowitz, if I could. What areas will the Department of Labor concentrate on in its next audit cycle for the TSP Board? Will you review the new recordkeeping system? And how about customer service?

Mr. LEBOWITZ. Madam Chairwoman, we will be specifically looking at customer service and the withdrawal and loan subsystems. This will be with the next fiscal year when the new audit cycle will begin, but those three areas are specifically going to be reviewed in depth.

Mrs. DAVIS OF VIRGINIA. Thank you, Mr. Lebowitz. I look forward to seeing that review. And thank you, gentlemen, for being here today and being so patient for our long questions. Thank you very much.

If we could get the second panel of witnesses to come forward, we're going to try and start, but I'm just going to warn you we possibly will have a series of votes here around 12 or 12:15 p.m., and

those votes may take us out of here for about an hour, so we'll go ahead and try and get started, get you sworn in, and try to get the opening statements.

While you're coming forward, I would like to thank you for taking the time from your busy schedules to appear today. I welcome Michelle Corridon from the Federal Managers Association and Keith Rauschenbach from TIAA-CREF. I hope I got all that right.

It is the policy of this committee that all witnesses be sworn in before they testify, so if you would please rise and raise your right hands.

[Witnesses sworn.]

Mrs. DAVIS OF VIRGINIA. Thank you. Please be seated, and let the record reflect that they answered in the affirmative.

In order to allow time for more questions and discussion, if you could please summarize your testimony in 5 minutes it would be appreciated, and all of your written statements will be made part of the record.

Again, I'd like to thank our witnesses for appearing today, and I'd also like to thank the staff for working on this hearing.

We'd like to begin with Ms. Corridon.

STATEMENTS OF MICHELLE C. CORRIDON, CO-CHAIR, FMA-USDA CONFERENCE, FEDERAL MANAGERS ASSOCIATION; AND KEITH RAUSCHENBACH, VICE PRESIDENT OF CONSULTING SERVICES, TIAA-CREF

Ms. CORRIDON. Madam Chairwoman and members of the committee, my name is Michelle Corridon. On behalf of the 200,000 executives, managers, and supervisors in the Federal Government whose interests are represented by the Federal Managers Association, I would like to thank you for inviting us to present our views regarding the Thrift Savings Plan's new online recordkeeping system and the problems that have occurred since its launch on June 16, 2003.

I currently serve as co-chair of the FMA–USDA Conference and have been an employee of USDA Rural Development for 15 years. My statements, however, are on my own in my capacity as a member of FMA and do not represent the official views of the Department of Agriculture.

On June 16, 2003, the TSP launched its long-awaited online recordkeeping system. TSP participants numbering approximately 3 million saw this as the end of a journey that began in May 1997 with the award of a system contract to American Management Systems. Since May 1997 Plan participants have experienced a change in contractor, the filing of a lawsuit on behalf of Plan participants against AMS, a countersuit from AMS, and, since October 2000, no fewer than five delays in implementation.

The launch of the new system was to provide TSP participants with many of the benefits and flexibilities available to private sector 410(k) plan participants. Unfortunately, what was supposed to be hailed as a success has been far from that.

From the time the new online system was launched on June 16th, there have been more instances of problems than achievements. When FMA sent a request to its membership for input on the new system, we received an avalanche of comments, some posi-

tive, most very negative. The majority of complaints about the new online system involved participants' inability to simply access the new system. Our members reported slow log-in times, complete inability to access the system, and instances of being kicked off the system in the middle of attempting to process a request. Many members complained about the lack of updated information provided on TSP's main Web site. While there are messages alerting participants of difficulties, there was no information given on the status of resolving the problems. In fact, the same popup message about the status of the system was posted for weeks.

In addition to problems accessing the system, more serious problems have occurred for participants who wanted to take advantage of the new system loan-filing feature, which is supposed to allow participants to begin the loan application process on line. Many members have tried to use the online system to no avail, and then attempted to fill out paper copies of necessary forms only to discover weeks later that there was still no record of their request or even confirmed receipt of their applications.

Because of the difficulties in completing the loan application and approval process, many participants have been unable to secure lower interest rates and have suffered financial losses. Others have not been able to pay contractors completing renovation work on homes, while some have not been able to complete the purchase of homes.

While complaints of the TSP initially involved the new online recordkeeping system, the frustration felt by Plan participants does not stop there. In the absence of being able to access the online system, many participants have tried to use the TSP help line, Thriftline, or reach the TSP via fax or mail only to find that there have been a glut of problems through those alternative routes, as well.

Thriftline, which is not a toll-free call but a long distance phone charge for most Plan participants, has been overwhelmed with recent activity. Our members have reported waiting over 20 minutes to be connected to a live person, only to be cutoff by the system. That fate has occurred only when Plan participants have been able to avoid the busy signal.

Members have tried calling at various times to avoid high-traffic calling hours, but even that has not been successful for some. For participants who have been unable to connect to a TSP representative, many have been told that their transactions have not been processed or they should refile an application and send it via fax. This has resulted in a backlog of data entry work for TSP employees. Because participants have sent numerous requests for the same transactions, there are likely to be duplicative actions taken, which only lead to a greater lag time, more work for TSP representatives, and ultimately more problems for participants.

We are aware that the Federal Retirement Thrift Investment Board [FRTIB] has taken steps to try and resolve these issues—for example, by adding additional phone lines to Thriftline and by hiring new employees to complete data entry work that has been backlogged. We have confidence that these problems will be addressed and the backlogs will diminish with time.

FMA members understand new systems such as this often encounter some initial minor technical problems, but in this case it has been a lot to swallow when the system has taken years to get on line and, more gravely, involves participants' savings.

Madam Chairwoman, you have asked for our members to offer ideas on how a similar situation could have been avoided or should be avoided in the future. We have received a number of suggestions, including: Conduct wider testing before launching the system to 3 million participants. Grandfather the loan application system for loans submitted prior to June 16th. Do not return the applications to participants, but complete the process under the old format. When a change in the system is approaching, advise how the changes may affect you prior to the official launch of the system. Provide more detailed contact information for troubleshooting—names, titles, phone numbers, fax numbers, e-mail addresses, mailing addresses. Allow the old and new systems to run parallel until all of the kinks with the new system are resolved. Provide adequate customer service staffing to handle inquiries. Provide customer support through e-mail. Keep participants informed every step of the way and as early as possible.

Many of the comments that FMA received in our response for input focused on the settlement between FRTIB and AMS and its impact on Plan participants. As you might expect, Madam Chairwoman, this assessment was not warmly received by our members, and most, if not all, Plan participants. There was little information provided to participants about the lawsuit, and even less information about the settlement prior to the announcement of the settlement itself. Naturally, there have been questions regarding accountability and who should be responsible for the AMS contract.

In conclusion, Madam Chairwoman, more and clearer information should have been disseminated to TSP participants. Perhaps the new online recordkeeping system was not adequately publicized and Plan participants had expectations that were too high; perhaps not. In either case, regularly informing the masses about the latest status of a system would have at least mitigated the anger and frustration our members and other participants are experiencing.

It is critical that Plan participants regain their trust in the TSP system and those who oversee it. The TSP is one of the few remaining models of excellence in the way of Federal benefits. It has long been a recruitment tool, and with the pending retirement of so many Federal workers in the next few years, it must be looked to once again as one of the advantages of Federal employment.

I would like to thank you, Madam Chairwoman, for providing FMA an opportunity to present our views. We at FMA look forward to working with you and other Members of Congress to ensure the problems with the TSP are resolved and Federal employees will soon regain complete confidence in the Plan.

This concludes my prepared remarks.

I'd also like to direct the members of the committee to the addendum to the testimony, which includes specific comments from our

members.

I would be glad to answer any questions you and members of the committee may have.

Mrs. DAVIS OF VIRGINIA. Thank you, Ms. Corridon.

[The prepared statement of Ms. Corridon follows:]

FMA

Federal Managers Association

Testimony
Before the Committee on Government Reform
United States House of Representatives

For Release on Delivery
Expected at
10:00 A.M. EST
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Oversight Hearing of the Thrift Savings Plan (TSP) – Difficulties with the New Online System

Statement of
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Chairman Davis, Ranking Member Waxman, and Members of the Committee:

My name is Michelle Corridon. On behalf of the 200,000 executives, managers, and supervisors in the Federal government whose interests are represented by the Federal Managers Association (FMA), I would like to thank you for inviting us to present our views before the House Government Reform Committee regarding the Thrift Savings Plan's (TSP) new online record-keeping system and the problems that have occurred since its launch on June 16, 2003.

I currently serve as co-chair of the FMA-USDA Conference and have been an employee with Rural Development at USDA for 15 years, where I am a Single Family Housing Specialist. My statements, however, are my own in my capacity as a member of FMA and do not represent the official views of the Department of Agriculture.

Established in 1913, FMA is the largest and oldest Association of managers and supervisors in the Federal government. Our Association has representation in more than 25 Federal departments and agencies. We are a non-profit advocacy organization dedicated to promoting excellence in public service through effective management.

As those who are responsible for the daily management and supervision of government programs and personnel, our members possess a wide breadth of experience and expertise that we hope will be helpful as we collectively seek to address the current problems TSP participants have experienced with the new online record-keeping system.

THE LAUNCH OF A NEW SYSTEM

On June 16, 2003, the TSP launched its long-awaited online record-keeping system. TSP participants, numbering approximately three million, saw this as the end of a journey that began in May 1997 with the award of the system contract to American Management Systems (AMS). Since May 1997, Plan participants have experienced a change in contractor, the filing of a

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lawsuit on behalf of Plan participants against AMS, a countersuit from AMS, and since October 2000, no fewer than five delays of implementation.

The launch of the new system was to provide TSP participants with many of the benefits and flexibilities available to private-sector 401(k) plan participants. Included in these changes, as published by the TSP in "How the TSP is Changing" (June 2003), were:

- The TSP switching from a monthly valued plan to a daily valued plan which would allow participants to make account changes on a daily basis;
- Participants being able to access daily account balances via the Internet as opposed to seeing changes every month, as transactions would now be processed each business day instead of monthly;
- Participants being able to view their account balances and transactions not only in dollar amounts, but also shares and share prices;
- Account statements being revised quarterly as opposed to twice per year;
- Participants having the ability to begin – and, in some cases, complete – a loan or withdrawal request and reamortize a loan online; and,
- Loan or withdrawal payments being deposited electronically into participants' checking or savings accounts.

ONLINE SYSTEM PROBLEMS

Unfortunately, what was supposed to be hailed as a success has been far from that. From the time the new online system was launched on June 16th, there have been more instances of

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problems than achievements. When FMA sent out a request to its membership for input on the new system, we received an avalanche of comments – some positive, most very negative. The majority of complaints about the new online system involved participants' inability to simply access the new system. Our members reported slow login times, complete inability to access the system, and instances of being "kicked off" the system in the middle of attempting to process a request.

Many members complained about the lack of updated information provided on the TSP's main Web site, www.tsp.gov. While there were messages alerting participants of difficulties, there was no information given on the status of resolving the problems – in fact, the same "pop-up" message about the status of the system was posted for weeks.

In addition to problems accessing the system, more serious problems have occurred for participants who wanted to take advantage of the new system's loan-filing feature, which is supposed to allow participants to begin the loan application process online. Many members have tried to use the online system, to no avail, and then attempted to fill out paper copies of the necessary forms – only to discover weeks later that there is still no record of their requests or even confirmed receipt of their applications. Because of the difficulties in completing the loan application and approval process, many participants have been unable to secure lower interest rates and have suffered financial losses. Others have been unable to pay contractors completing renovation work on homes, while some have not been able to complete the purchase of homes.

CONTACTING TSP THROUGH ALTERNATIVE METHODS

While complaints of the TSP initially involved the new online record-keeping system, the frustration felt by Plan participants does not stop there. In the absence of being able to access the online system, many participants have tried to use the TSP Helpline – Thriftline – or reach the TSP via fax or mail only to find that there has been a glut of problems through those alternate routes as well. Thriftline, which is not a toll-free call but a long-distance phone charge for most

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Plan participants, has been overwhelmed with recent activity. Our members have reported waiting over 20 minutes to be connected to a live person, only to then be cut-off by the system. That fate has occurred only when participants have been able to avoid a busy signal.

Members have tried calling at various times to avoid high-traffic calling hours, but even that has not been successful for some. For those participants who have been able to connect to a TSP representative, many have been told that their transactions have not been processed or they should re-file an application or transaction and send it via fax. This has resulted in a further backlog of data-entry work for TSP employees. Because participants have sent numerous requests for the same transactions, there are likely to be duplicative actions taken, which only lead to greater lag time, more work for TSP representatives, and ultimately more problems for participants.

We are aware that the FRTIB has taken steps to try and resolve these issues, for example by adding additional phone lines to Thriftline and by hiring more employees to complete the data-entry work that has been backlogged. We have confidence that these problems will be addressed and the backlogs will diminish with time. FMA members understand that new systems such as this often encounter some initial minor technical problems, but in this case, it has been a lot to swallow when the system has taken years to get on-line and, more gravely, involves participants' savings.

HOW TO AVOID THIS IN THE FUTURE

Mr. Chairman, you also asked our members to offer ideas on how a similar situation could have been avoided or should be avoided in the future. We received a number of suggestions including:

- Conduct wider testing before launching the system to three million participants;

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- Grandfather the loan application system – e.g., for loan applications submitted prior to June 16th, do NOT return the application to the participants, but complete the process under the old format;

- When a change in the system is approaching, advertise "how the changes may affect you" prior to the official launch of the system;

- Provide more detailed contact information for troubleshooting – names, titles, phone numbers, fax numbers, email addresses, mailing addresses;

- Allow the old and new systems to run parallel until all of the "kinks" with the new system are resolved;

- Provide adequate customer service staffing to handle inquiries;

- Provide customer support through email; and,

- Keep participants informed every step of the way and as early as possible.

FURTHER TSP CONCERNS

On June 20, 2003, merely four days after the TSP launched its new online record-keeping system, the Federal Retirement Thrift Investment Board (FRTIB), which oversees the TSP, announced that a settlement had been reached between the Board and AMS, the original system contractor. The Board had originally fired AMS on July 21, 2001 after a series of delays and performance failures. In July 2001, MATCOM International Corporation was hired to complete the development and implementation of the new system.

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The TSP board subsequently filed a $350 million lawsuit against the contractor for the cost and schedule overruns, to which AMS countersued in Federal Claims Court seeking $41 million in expenses for work it performed while under contract. The lawsuits were recently dismissed under a settlement agreement in which AMS will pay the FRTIB $15 million and the Board will pay AMS $10 million. TSP participants will be assessed the remaining $36 million in expenses from the failed contract which will appear on their next quarterly statement as an administrative expense. According to a memorandum sent from the Board to members of the Employee Thrift Advisory Council (ETAC) on July 9, 2003, "the charge allocated to each participant was approximately 3 basis points, which means that earnings were reduced approximately 30 cents for every $1,000 of account balance."

Many of the comments that FMA received in response to our request for input focused on this settlement and its impact on Plan participants. As you'd might expect, Mr. Chairman, this assessment was not received warmly by our members and most – if not all – Plan participants. First, the system that they had waited six years to be completed was encountering significant technical problems. Now, they are going to be responsible to cover the costs of a contract that was never completed as scheduled and from which participants have seen no tangible benefit as yet. For our members, it is more a matter of *principle* than *principal*.

There was little information provided to participants about the lawsuit, and even less information about the settlement prior to the announcement of the settlement itself. While the Board issued a press release announcing the settlement, it did not publish details regarding the actual breakdown of the assessment being passed on to participants. In annual financial statements available to participants via the TSP Web site at www.tsp.gov, information is provided to participants about the failed AMS contract and the subsequent charge to TSP participants: "If the Board determines that there will be no recovery from AMS, it will amortize the $41 million to participants' accounts" (December 31, 2002)." Thus, because the Board netted $5 million from the AMS settlement, participants will be charged the remaining $36 million.

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Naturally, there have been questions regarding accountability and who should be responsible for the AMS contract:

- Where was the Department of Labor in this process, as it is charged with overseeing the Federal Retirement Thrift Investment Board?
- What criteria and measures were used in determining that AMS was best suited to be awarded the original contract in 1997?
- If the Board and its Executive Director are to be the fiduciaries to the Plan participants, what attempt was made to obtain input from Plan participants on the settlement of the lawsuit?
- Since the advent of the problem-laden online system, what performance accountability has been – or should – assigned to MATCOM?
- If this situation occurred with a private-sector 401(k) plan, would the cost be written off to the fund participants?

CONCLUSION

The TSP was created in 1986 to allow Federal employees to participate in a retirement and savings program that they could feel confident in, one which their funds were invested safely, with a board to oversee those investments. Many of our members are still supportive of the TSP overall and plan to keep their investments in the TSP; however, they have become disenchanted due to recent developments – namely the disastrous launching of the new online record-keeping system and the lawsuit settlement that will cost them $36 million in sum.

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More and clearer information should have been disseminated to TSP participants. Perhaps the new online record-keeping system was not accurately publicized, and Plan participants had expectations that were too high; perhaps not. In either case, regularly informing the masses about the latest status of the system would have at least mitigated the anger and frustration our members and other participants are experiencing.

It is critical that Plan participants regain their trust in the TSP system and those who oversee it. The TSP is one of the few remaining models of excellence in the way of Federal benefits. It has long been a recruitment tool, and with the pending retirement of so many Federal workers in the next few years, it must be looked to once again as one of the advantages of Federal employment.

FMA has long served as a sounding board for the Legislative and Executive branches in an effort to ensure that policy decisions are made rationally and protect the interests of the Federal workforce. While we do not know where all the answers lie, we at FMA believe that there must be better communication between the Federal Thrift Retirement Investment Board and TSP participants. As a member of the Employee Thrift Advisory Council to the Board, we are committed to ensuring that this communication and transparency takes place from this day forward.

I would like to thank you again, Chairman Davis, for providing FMA an opportunity to present our views. We at FMA look forward to working with you and other Members of Congress to ensure that the problems with the TSP are resolved and Federal employees will very soon regain complete confidence in the Plan.

This concludes my prepared remarks. I would be glad to answer any questions you and members of the Committee might have.

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ADDENDUM

Chairman Davis and Members of the Committee:

Below is a sampling of the comments that we have received from our members regarding this issue:

- "I have been trying to secure a TSP loan for about the last three weeks and the system is either down, slow or not taking requests. I have mailed the paper copy of the loan request three times and as of last evening when I checked, TSP is saying I have no loan application on file."

- "The process is frustrating as I have several contractors waiting this funding before we can start on our remodel project."

- "I have been trying since 3 June to take out a loan and pay off another which I overnighted to them, and now through normal payroll deductions the loan is almost paid off and they will owe me the entire amount of the overnighted check."

- "Since the new TSP website was launched June 16, I have encountered several problems. On June 20, 2003, I sent a personal check via Express Mail to pay off my existing loan. The mail was received by the TSP office on June 23, 2003 IAW the U.S. Postal tracking service. My bank and bank statement showed that my check was returned for payment on June 30. The TSP Office was still deducting my payments as of July 3, 2003."

- "I have made several attempts to use the system for both personal and self-directed training to be able to assist others with the system. Late at night at home it took 3 hours before I was able to get to the loan page and then once there I was unable to do anything. I never was able to get to the rearmortization page. The only thing I was ever able to do was view my balance. Since I have attempted to use the system at varied hours of the day I believe the problems are with the system inability to accommodate request to view pages."

- "The new online record keeping system still has problems. On 1,2,3 July I tried to go on line and make a interfund transfer; I never could get to that point in the system. On 7 July after five/six attempts I finally was able to reach the interfund transfer section (this isn't my first day using the TSP website, either). I inputted all my changes and pressed the submit button – and lost the website."

- "I have used the new TSP system. It took me 3 days until I was able to access their website, and then was only able to obtain my account balance."

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- "I am not satisfied with the new system. I can only get account balances. There has been a message on the website since 6/25/03 about slow logon times but this is getting ridiculous."

- "I just had a conversation with an employee who has nothing but bitter complaints about it. The employee recently received a new PIN in the mail, as she had requested. However, when she tried to access her account online, the website gave an edit saying the new PIN was invalid. I have not heard anything positive about the new system from anyone."

- "Regarding the new TSP site/system, I really have very few positive comments to convey. This highly touted launch has been fraught with problems from day one. Initially, it provided absolutely no information at all, not even an account balance. After approximately one week, the user could get an account balance, but nothing more. And that's essentially the current status of the system. In fact, only minutes ago I attempted to access my account, had the same experience. If one were to attempt 'general access,' error notices abound. General access is supposed to allow the participant to make changes in share balance among the different funds."

- "According to what I pulled up on line I have had no payments credited since March. My principal balance on my loans is more than the April 30th Statement. The online statement was as of 07/10/03."

- "Several members and myself have been unable to access our accounts via the TSP.gov website except to find the balance since the new system was implemented in June."

- "I submitted a loan request on April 16th, 2003; only yesterday was I assured that the loan agreement could be processed for my signature. The first form was deemed incorrect after the replacement form was mandated. This didn't jive with their directions on the web, however. So, on June 16 I submitted the most current form; at that time I was told to fax it since their web system was down and it would be processed faster."

- "Slow processing manual transactions, i.e. someone sent in a money order to pay off a loan took several weeks (over 4) before the system showed the loan was paid off and that was after they contacted the Washington TSP office for assistance. Employees wanting to process an inter-fund transfer using the web and/or Thriftline have been unable to and feel they might have lost out on returns."

- "I spoke with someone at the TSP Service Office on 24 June because I couldn't get into the account portion of the menu. She said it would be corrected within a week. There is still a window that displays when you select Account Access that is dated 25 June 2003 stating there are problems with the site that should be resolved within a week. They are not yet resolved. I have been trying to call back and talk to a person ever since. That was thirteen working days ago. Both phone numbers for the TSP Office and the Thriftline

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disconnect the caller once the option to speak to a person has been chosen. It is very difficult to even get through; the lines are busy all day."

- "After all the hoopla about the new system and six or seven years of development, it appears that no troubleshooting of the system was conducted until the system went on-line."

- "I waited for five months for my TSP password. After I made the first request no one notified me that my address was 'too long' and only found out after I phoned them. I had to change the address twice. The address wasn't 'too long' for any other agency. With that kind of mentality, I don't even want to think about what is happening with the funds."

- "My loan was requested in May, third week of June was able to get through, was told the system was not up yet so they couldn't look at my account. The following week they told me the same thing, but if I would fax in another request it would be processed right away. That night they sent a letter stating that I needed to resubmit my loan request because my original request was on the wrong form number. The 'correct form' they sent me was the exact form I used in May, and had faxed to them. The second week in July they told me nothing was showing but it was taking some time to get the paperwork input into the system. When I can get on the website, which is almost impossible, I keep checking for progress. Saturday 7/12/03 the website showed my loan was being processed and to check back in 2 business days. The message has not changed yet."

- "I want to let you know that I have a serious problem with TSP. This is my money in my account right? Then why can't I have my money? I called 1st to ask the right way to apply. I was told to get the application TSP-20 off the Internet; I did. I faxed it to the number given to me. I received a letter on 6-23-03 dated 6-20-03 telling me I had used the old form and they were not going to accept it. And they mailed me the correct TSP-20. Now, remember, I used the form I was told to use. Why did it take them 18 days to put a letter in the mail to me? I faxed the new form on 6-24-03. No response. On 7-3-03 I went online to www.tsp.usda.gov. I could not get in. I called and I talked to a lady named -------. She told me to fax the info to her and she would see that it was taken care of. On 7-9-03 I checked again online, which I could not get in, and then by phone and I couldn't get past the recording. I could not reach a human. I emailed the HRM section asking for help. They called me and gave me additional phone and fax numbers. They told me that they tried to call but TSP would not give them information concerning anyone because of the privacy rules, even though I, amongst others, have emailed them asking for help. Also on 7-9-03 I faxed a letter to ------- asking her to call me and explain to me why my application was not even showing as being in the system. I also asked if additional information was needed. As of this date I have not received a note nor a call from this lady. On 7-14-03 I sent another fax (4th one) to the TSP dep't. I explained my situation and asked for a response, none was received. 7-15-03 I got online and found the TSP phone numbers in conjunction with NFC website. I called the TSP director and ended up with the Associate Director. She was polite and took my name, Soc. Sec. #, phone

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number and said she would have one of her technicians call. As of this date, no call. I tried to call her back the next day, I got the TSP recording, no human. On 7-16-03 I contacted Congressman John Boozman, 3rd Congressional District and asked for their assistance."

- "One thing I hear over and over from everyone (NRL HRO, HRSC Philadelphia, EBIS, OPM, FRTIB), 'You should be able to get into the system now, just keep trying.' No one understands the multi-step loan process that is in place. There are so many steps and anyone of them could fail, which they have. I have wasted so much time and now lost out on low interest rates."

- "Due to the recent changes in the stock market, this has cost me a lot of money. They said the new site would make our changes easier, but it has made it a nightmare. I can not access anything except my balance."

- "The phone number is always busy; maybe they should have some prompts directing you to different components. Faxed information is taking over three weeks to be keyed into the system."

- "I have called the phone number three times, gone through the electronic menu, and been told to hold for the next available operator. Then the phone switches to a busy signal and you have to start the calling process all over."

- "Not knowing if the system excepted my changes, I decided to call the phone number listed on the web site (504-255-8777). You have a better chance of calling the President of the United States. After numerous times, I was finally able to speak to a real person. The person at the other end was very professional. She informed me the changes I tried to do on-line didn't take. I then gave her all the changes over the phone and was told it was completed, that I would receive a copy confirming these changes in the mail in a few days. After waiting seven days (remember, during this period the stock market is UP) I decided to call the president (TSP 504-255-8777) again, and yes it took for ever to talk to a real person. I finally spoke to another person (very professional); she informed me there STILL weren't any changes to my TSP account. However, there was information sharing from the previous person that the account should have been changed back on the 7th of July. I just lost seven days. Now I have to write a letter to the Director of the Federal Retirement Thrift Investment Board and plead my case. The employees who are taking these phone calls are handicapped by a system that is malfunctioning; their hands are tied – just ask them. I'm just trying to invest my retirement money differently. Think of the people who lost their spouse(s) and are trying to talk to a real person for help."

- A member relayed this story: "She called the phone system and the automated system also told her the PIN was invalid. She has been trying to get to a live agent and is unsuccessful so far, despite inordinate amounts of time spent on hold. She has even had her call dropped after being on hold for 20 minutes."

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- "I was told to call and confirm receipt. Well, that's real nice, but 3 weeks later I still could not get any connection on the phone. It was always busy or connection would be cut off. The 504 255 6000/8777 numbers were simply overloaded. Essentially I was locked out, the web didn't work and the phone system didn't work. Today is the 16th of July (exactly 90 days after my initial request) and I have yet to receive my loan. I faxed the agreement back signed yesterday so am expecting a deposit to be made anytime now."

- "I have made at least 5 attempts by phone. I have attempted to contact TSP between 7:00 am - 8:00 am EST when I thought they should be less busy. I was still unable to get through."

- "I have been a member of TSP since its inception and have always appreciated the communication received, newsletters, and the improvement to access accounts online. However, it appears this new system was instituted without assuring it was actually accessible to all members. I was insulted to go online to discover there were individuals whose 'loans were being approved on a daily basis' & the TSP is not acknowledging they have my loan or paperwork for the loan. (Bottom line – I will NOT get out of the system – but improve it, please!)"

- "My greatest concern, however, is the outrageous action to transfer part of the cost of a suit settlement to the TSP participants. We had no part in the lawsuit, we were never notified of the proposed settlement terms and never had the opportunity to comment upon the proposal, and we still have not been notified by the TSP that funds were deducted from our accounts. It is ironic that the suit involved the very system that still does not properly function!"

- "TSP has been working for the past 6 years to try and bring the TSP in line with the way private industry such as AG Edwards provides information to the mutual fund, IRA, etc. Holders, for example, share price, market fluctuation, and more up-to-date information to help investors in the plan make more informed investment decisions. A contractor AMS was hired in 1997 to make these changes and they were supposed to be completed by May 2000 at a set contract price of $30 million. The contractor failed to get the new system up and running, there were 4 delays, and the cost was way beyond 30 million. So TSP board fires the contractor in July 2001 and hires a new one to attempt to do what the other contractor could not. So TSP Board sues the 1st contractor for failure to complete the contract and the 1st contractor countersues. When I was looking at GovExec.com the other day I read an article where TSP had settled in court with the 1st contractor. To my disbelief TSP participants such as myself are going to have to pay the contractor who failed to perform $36 million dollars. What is up with this? TSP did not fail in the contract, I did not fail in the contract, nor did other TSP participants, the contractor failed. Yet myself and the other 3 million fed. Employees and military personnel have to pay the contractor $36 million dollars. If this is the way TSP is going to conduct business, then it will be to my advantage as well as other employees to stop contributions and

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invest their monies in an IRA or mutual fund administered by a private firm such as T.Rowe Price. They would not roll over like TSP did in this type of situation."

- "Clearly TSP participants were disadvantaged by the selection of AMS as the contractor for the TSP conversion. We were denied the flexibilities common to this type of plan for an extended period of time. We were unable to adjust our plan allocations to meet the changes in the market which may have seriously economically disadvantaged many Federal employees. This was a failure of the TSP Board and AMS not the plan participants. To now have those harmed pay for the failure of others is clearly a case of penalizing the victims."

- "I enrolled in TSP in June (better late than never) until I was informed my contributions had to go to the G fund for three (3) open seasons. I immediately had myself dis-enrolled. The government is not matching any funds and should have no right to dictate into which fund MY contribution is deposited. This is especially relevant as I had planned to make significant contributions utilizing the TSP catch up provision."

- "I have not attempted to access the new on-line record keeping system. Daily access isn't that important to me. However, an issue that is very important to me is the assessment of the $36 million bill from the settlement with AMS to TSP participants. It seems to me that the TSP officials did not do their homework when they awarded the contract to AMS. Surely, thorough investigation would have revealed that AMS was not capable of performing. Also the contract was allowed to continue even when it should have been obvious that AMS was not performing which increased the potential liability to the TSP. I agree with the GAO report which said that TSP officials should be held more accountable to Congress. Participates in TSP are dependent upon TSP officials looking out for their interests. Payment of $36 million for a failed contract isn't looking out for participants' interest."

- "What does concern me is the monetary loss as a result of the lawsuit with AMS. This should NOT come out of the contributors' pockets! In today's day and age, it is difficult to conceive how an organization can get led on by a contractor who fails to deliver a promised product for an extended period of time. Where is the accountability?"

- "Back in Nov. I requested a TSP loan. A check not cut until Jan. 03. Then it was lost in the mail. I did not ever receive the first check. Then it took until the end of Feb. 03 to receive the second check. It seems like an awfully long time to await a check. The reason is that I was using it for a down payment on a house. Because of the delay, I actually had to look at a second housing track as I did not get my money in time to get in to the first track I was interested in."

- "The TSP board should be fired, or made to pay that remaining $36 million bill. Why should the TSP members then be held liable and assessed for the board members' failure to execute their fiduciary duties properly? The board concocted that grand scheme without inputs from the TSP members. The board and their hired contractor wasted

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hundreds of millions on this scheme, without supervision by any TSP members. The board allowed that TSP online record-keeping system lawsuit and countersuit fiasco to occur, again without any TSP members participation. The board or their liability insurance companies should pay that bill -- NOT the TSP members. We had no input or ability to influence that process in any way. Why should we pay?"

- "The one positive comment I can make is that they have finally issued shares, and the administrators are providing daily valuations."
- "Only positive comments – I enjoy being able to go in and move my monies as needed on a daily basis which I have done."
- "System worked like clockwork last time I went to it for a loan. I mailed the application, they turned around their paperwork quickly and I had the check within about three weeks."
- "This is a 'vote' in favor of the new system. The only thing I've used it for so far is to check the balance, but so far I have been pleased. I like being able to check the balance daily if I want to and I want to be able to see the number of shares - which we are now able to do."
- "I used the new system to restart my TSP contribution and had no problems at all. It was easy to do, saved fine, and started when the system said it would."
- "The Washington Office on H Street has assisted a couple of our employees and that was great!"

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Mrs. DAVIS OF VIRGINIA. Mr. Rauschenbach, welcome. Thank you for being patient today.

Mr. RAUSCHENBACH. Madam Chairwoman and members of the committee, I am pleased to have the opportunity to tell you the story of TIAA-CREF's evolving customer service model. My name is Keith Rauschenbach, and I'm the vice president of eastern division for TIAA-CREF. We've learned many lessons in managing and administering one of the world's largest financial services organizations. With approximately $280 billion in assets under management, TIAA-CREF serves over 2.6 million education and research employees at about 11,000 institutions.

TIAA-CREF's commitment to selling and servicing quality products at a fair price to a growing customer base has compelled us to evolve our delivery and service methods over time. With a non-commissioned sales force that is smaller than most of our competitors, we've remained at the top of our industry. Our success lies in the effective use of three key communications methods: strategic use of direct contact with our participants, increased use of sophisticated telephone systems, and, finally, Internet-based systems.

Although TIAA-CREF has been in business for 85 years, combining a clear vision of our service model with the use of available technology and an emphasis on training has kept us going strong into the 21st century.

TIAA-CREF's customer service platform relies heavily on cutting edge technology, but we haven't lost sight of the value of face-to-face contact with our participants. TIAA-CREF has 23 local offices staffed by nearly 300 consultants around the country. These consultants are dedicated to working face-to-face with institutions and their employees.

TIAA-CREF's toll-free telephone counseling center has been pivotal to the success of our customer service model. Non-commissioned, individual consultants are available from 8 a.m. to 10 p.m. Eastern Time Monday through Friday and from 9 a.m. to 6 p.m. Eastern Time on Saturdays. What started as a staff of 10 consultants has grown to nearly 340 telephone consultants operating out of three sites—Charlotte, Denver and New York. This structure allows us to serve more people and work with multiple time zones, providing for business continuity in the case of weather emergencies or catastrophic events.

During 2002, consultants in the Center fielded approximately 1.8 million calls. All calls were answered within 39 seconds. Only 4 percent of our callers abandoned their attempt to reach us. The average length of a call was approximately 7.5 minutes, and our total call processing time was roughly 11 minutes.

Before the success of our toll-free telephone counseling center, TIAA-CREF was already giving customers transactional ability through our automated telephone service created in the early 1980's. No doubt you are familiar with automated phone systems. Callers use their telephone keypad to execute certain transactions and request specific information.

TIAA-CREF's automated telephone service is available 24 hours a day, 7 days a week. During 2002 just over 2 million calls were received by the automated system. Another 805,000 were fielded by one of the representatives staffing the automated telephone service.

Turning to our Web site, those in the education and research arena were among the first to embrace the Internet as a valuable research and communications tool, so it was only natural for TIAA-CREF to be on the Web. Not only did TIAA-CREF increase information available to participants by launching our own Web site in 1996, but we also enabled participants to do business with us through the Internet.

On the Web, clients can effect a variety of transactions, including transfers among their TIAA-CREF accounts and loan requests. In fact, this Web access has allowed the loan process to be reduced from a couple of weeks to less than 5 days, typically.

Among the new customer support initiatives we're looking at in the immediate future is augmenting Web browsing and traditional e-mail with real-time instant messaging. Over the first 6 months of 2003, participants made over 10 million secure inquiries. That's 50 percent more than in the same timeframe in 2002. And, in addition, they completed 275,000 secure transactions during the first 6 months of this year.

Before I close, I should also acknowledge here the importance of TIAA-CREF's emphasis on training, on-the-job monitoring, and client surveys. Details of these elements were included in my written statement. They each serve to ensure that our points of client contact measure up to the expectations of our current and prospective clients.

To successfully serve our customers, we rely on all these systems—direct contact, telephone systems, and the Internet. Knowing and responding to the needs of our customers in a way that works for them reinforces their confidence in TIAA-CREF. The trust our clients have in the integrity of TIAA-CREF and our focus on them is one of our most valued and valuable assets.

Thank you for giving me the opportunity to share TIAA-CREF's experiences in increasing customer access with you. I am pleased to answer any questions you might have on my testimony.

Mr. TOM DAVIS OF VIRGINIA [resuming Chair]. Thank you very much.

[The prepared statement of Mr. Rauschenbach follows:]

Testimony before the House Committee on Government Reform

July 24, 2003

Keith Rauschenbach

Vice President,

Eastern Division

TIAA-CREF

I am pleased to appear before the House Committee on Government Reform and share with you the story of TIAA-CREF's developing customer service model. TIAA-CREF, a diversified national financial services company with $280 billion in assets under management, is perhaps best known for its pioneering portable pension system for the nonprofit education and research communities. Today TIAA-CREF is the premier pension system for people employed in higher education, serving nearly three million participants at over 11,000 U.S. colleges, universities, and related nonprofit research organizations.

Over TIAA-CREF's 85-year history, it has learned many lessons and accrued much experience in managing and administering one of the world's largest financial services organizations. As the world's largest private, defined contribution pension system, TIAA-CREF strives to fulfill its responsibilities to customers -- institutions and individuals alike – in accord with the highest possible standards in all regards.

Every aspect of the operation gets top priority -- from premium billing and accounting, to portfolio management and crediting investment earnings, to paying out lifetime income benefits in retirement. TIAA-CREF employees understand that how we manage the pension system today can have long-lasting impact on the pocketbooks of the millions of individuals who entrust the financial management and stewardship of their retirement savings to TIAA-CREF.

Foremost among TIAA-CREF's priorities is to deliver top-notch customer service. This means being accessible to customers, communicating effectively with them, and handling their service questions and concerns with dispatch, honesty and accuracy at all times.

HOW TIAA-CREF'S SERVICE MODEL EVOLVED

TIAA-CREF is a company of firsts. Our commitment to selling quality products at a fair price to a growing customer base compelled us to look at alternative delivery and service methods. TIAA was established in 1918 with the unique mission of providing retirement benefits to higher education. CREF, a companion organization to TIAA, was founded in 1952 to

offer retirement annuities based on investments in common stock and issued the first variable annuities in the United States. More recently, TIAA-CREF was one of the first financial services firms to give its customers a broadly available, secure transactional Web site.

TIAA-CREF has never relied on a large, commissioned sales force. With a non-commissioned sales force far smaller than sales forces of the majority of our competitors, we have remained at the top of our industry. Our success lies in effective use of three key communication methods:

- Direct personal contact with participants;
- Increased use of sophisticated telecommunications systems; and,
- Extensive use of Internet-based technology.

Although TIAA-CREF has been in business for 85 years, combining a clear vision of our service model with the use of emerging technology and an emphasis on training has kept us going strong into the 21st century. In fact, our commitment to training as the underlying basis for customer service is so strong that our telephone counselors must successfully complete a four-month training program before they answer a customer phone call.

THE EARLY YEARS

Direct Customer Contact

Up through the 1970s, our main method of communication with customers was direct contact through our institutional consultants, based TIAA-CREF's New York home office headquarters. Consultants also visited institutions across the U.S. to assist them in establishing retirement and tax-deferred annuity (TDA) plans tailored to their needs. Individuals looked to us to explain their institution's plan and to update them on TIAA-CREF's products. In between our visits on campus, institutional and individual plan participants could write to TIAA-CREF with their questions and service requests, or call us collect.

Today, TIAA-CREF's customer service platform relies heavily on sophisticated technology. But we have not lost sight of the value of face-to-face contact with our participants. We have increased the number of local offices and consultants that make in-person visits. TIAA-CREF has 23 local offices around the country -- and more to come - - all dedicated to working personally with institutions and their employees.

TECHNOLOGY SPEEDS UP THE SERVICE MODEL

Telephone Service

Telephone Counseling Centers

In response to customers' needs for more immediate information access, we added a toll-free Telephone Counseling Center in the early 1980s. This Center is still a mainstay of our customer service model today. Non-commissioned individual consultants – all registered representatives --are available from 8:00 AM to 10 PM, Monday through Friday, and from 9 AM to 6 PM on Saturdays. What started as a staff of ten consultants has grown to nearly 340 telephone consultants serving participants nationwide, and operating out of three sites: Charlotte, Denver and New York. This structure allows us to serve more people, work across multiple time zones and provide for business continuity in case of weather emergencies or catastrophic events.

During 2002, consultants in the Center fielded approximately 1.8 million calls. Seventy-one percent of all calls were answered within 30 seconds and all calls were answered within 39 seconds. The average length of a call is approximately 7 ½ minutes and total call processing time is roughly 11 minutes.

Automated Telephone Service

Even before the success of the toll-free Telephone Counseling Center, TIAA-CREF offered customers transactional ability through a new Automated Telephone Service, introduced in the early 1980s. For the first time, customers had 24-hour access to their account balances, the ability to make transfers among their TIAA and CREF accounts and to change their premium allocations, all at the touch of their telephone keypad, using their PIN (personal identification number).

Despite the allure of efficient, automated telephone systems, at times we have all wondered, "What do I have to do to speak with a real person?" TIAA-CREF's automated phone system also gives our customers access to consultants during business hours on weekdays and during the day on Saturday.

During 2002, over 2,000,000 calls were received by the automated system. Another 805,000 were fielded by one of the representatives staffing the Automated Telephone Service, with roughly half of those calls attributable to fall-through from the automated service.

Web Center

Those in the education and research arena were among the first to embrace the Internet as a valuable research and communications tool, so it was only natural for them to welcome TIAA-CREF's secure, transactional Web site. Launched in 1996, it enables participants to execute business through the Internet. They can make transfers among their TIAA and CREF accounts, change the allocation of future contributions, make beneficiary and address changes, calculate income projections, check on the status of service requests and loan requests, and enroll in plans electronically. The Web Center is continuously being updated, both in terms of its content and functionality.

For the first six months of 2003, participants made 10,607,000 secure inquiries through the Web site, over 50% more than during the same time frame in 2002. In addition, participants effected nearly 275,000 transactions on our Web Center during the first six months of this year.

TRAINING

TIAA-CREF uses training, on-the job-monitoring and client surveys to ensure that our points of client contact measure up to the expectations of our current and prospective clients. It all starts with training.

As I mentioned earlier, TIAA-CREF consultants participate in a four-month core training program. This intensive program covers our products and services, our corporate culture and history, and our service quality standards. Consultants must obtain positive evaluations from several managers before they have contact with clients.

Our phone service centers are staffed by professionals. All are registered representatives and most hold additional professional certifications as well. To ensure that our consultants are always current, TIAA-CREF's "continuing education" program tutors our consultants on product and service enhancements and relevant regulatory changes.

TIAA-CREF also has a consultant monitoring program in place. We randomly monitor one percent of the calls received each quarter and assess the caliber of service. Again,

consultants are monitored and assessed by several managers. Consultants receive feedback within 48 hours of the assessment. These assessments are tied not only to consultants' performance appraisals but to compensation and promotions as well.

TIAA-CREF customers tell us how we're doing through a series of service quality surveys of some 5,000 individual and institutional clients. More than 20 of the services we offer are evaluated, such as account transfers, allocation changes, tax reporting, telephone counseling experiences, and one-on-one counseling sessions with our consultants. Survey results influence changes and enhancements to our products and services, and are one of the factors influencing the results of TIAA-CREF's compensation programs.

These internal training and monitoring efforts complement TIAA-CREF's extensive investor education program for participants, helping them understand how to use their TIAA-CREF options and flexibilities.

Conclusion

To successfully serve our customers, we rely on all of these systems: direct contact, telephone systems and the Internet. University professors generally have easy access to the Internet and constantly push us to drive more information to the Web. However, other clients, such as hospital employees or K-12 teachers may not have 24-hour computer access and find it easier to use the telephone for counseling or account information. Still, there are times when everyone needs to sit down and talk to someone about his or her plan.

Knowing and responding to the needs of our customers in a way that works for them reinforces their confidence in TIAA-CREF. The trust our clients have in the integrity of TIAA-CREF and our commitment to them is one of TIAA-CREF's most valued and valuable assets.

We appreciate the opportunity to share TIAA-CREF's experiences in increasing customer access.

Chairman TOM DAVIS. Ms. Corridon, let me start with you. Did the Board communicate with your members in preparing for the launch of the new program?

Ms. CORRIDON. No, sir.

Chairman TOM DAVIS. Never heard from them?

Ms. CORRIDON. No.

Chairman TOM DAVIS. Do you feel that service has improved since June 16th?

Ms. CORRIDON. No, sir.

Chairman TOM DAVIS. You have seen nothing to indicate that?

Ms. CORRIDON. We understand that they are trying and that they've added the additional phone lines, but the harm that has been done to our membership so far is still very difficult to deal with.

Chairman TOM DAVIS. Regarding the AMS lawsuit that was filed by the Board, what is your organization's view about the Board's acquisition of private counsel as opposed to allowing the Justice Department to represent it?

Ms. CORRIDON. Just a second.

Chairman TOM DAVIS. Sure. And let me explain, too, to make sure you understand, this had the Plan participants then footing the bill, as opposed to the Treasury footing the bill.

Ms. CORRIDON. Yes, sir. There was never any information shared with us about the proposed settlement with AMS.

Chairman TOM DAVIS. OK. And in terms of their acquiring private counsel, which means Plan participants paid for it as opposed to having the Justice Department do it, which would have been paid for separately, I take it that's not a good thing and you're not in favor of that, either?

Ms. CORRIDON. We're concerned about the settlement and its effect on the Plan participants and their account balances.

Chairman TOM DAVIS. OK. But also my question really goes more to the fact that in suing on this the Board hired its own lawyer, and with that they used Plan money as opposed to the Justice Department handling it.

Ms. CORRIDON. Yes, sir. We're concerned about that, also.

Chairman TOM DAVIS. OK. Thank you.

Mr. Rauschenbach, what are the advantages and disadvantages of having a blackout period when a pension plan is going through a transformation?

Mr. RAUSCHENBACH. Well, sir, we have not had blackout periods in interactions that we've had with our institutions. When they've chosen to move from one provider with their plan assets to another, as soon as we get the money it has been participating. When our customers on an institutional basis may choose to elect another provider, the assets under that plan don't typically move on a wholesale basis, so we haven't had exposure to blackout periods.

Chairman TOM DAVIS. OK. And let me just ask you again, Ms. Corridon, would they have been better off, now, in retrospect, waiting a month or two to try to get this ready, than rushing it to June and having it work more smoothly, I mean, in retrospect?

Ms. CORRIDON. One of our suggestions was, if they were going to institute the new system, to run the old and new systems concur-

rently and, therefore, probably alleviate some of the problems that they've encountered.

Chairman TOM DAVIS. OK. Mr. Rauschenbach, let me ask you this. How much do you estimate you save by having your Web site available for customer transactions as compared to the face-to-face means and by telephone calls?

Mr. RAUSCHENBACH. Well, by virtue of having Web access, we have been basically able to hold our head count relatively flat while at the same time increasing our accessibility to customers and our ability to effect transactions. As I mentioned a short while ago, we have had participants effect 275,000 transactions over the first 6 months of this year on our Web center, and we were able to do that without having any increases this year in our head count.

Chairman TOM DAVIS. And from what you've heard about the TSP Web site startup, what would you advise the TSP Board to do to address these problems now that are encountered by customers? What would you do now if you were there?

Mr. RAUSCHENBACH. Well, frankly, I don't know a whole lot about the functionality under the TSP's Web site, but maybe what I can do is offer some of our experiences as an organization. As we've started up different functionality on our Web site, we've monitored it very closely to determine whether or not it is causing delays in other aspects of the Web site. If that has been the case, we've backed out of that portion of the Web site and let our customers know that it is temporarily unavailable. Doing that ensures that we are able to maintain our service standards on all other elements of our Web site.

One of the things that I did hear in the testimony today was the fact that on the TSP Web site there is now, as I understand it, an indication if there are particular hours that are better to try to get through to the Web site if the Web site is experiencing difficulties. Letting the customer know right up front about those kinds of things, I think, does help to relieve a lot of the frustration.

Chairman TOM DAVIS. If it's not an emergency, that kind of thing?

Mr. RAUSCHENBACH. Right.

Chairman TOM DAVIS. Thank you very much.

Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman.

Ms. Corridon, you testified, of course, it is known that many of the Plan participants suffered financial losses as well as other kinds of displeasure and discomfort. Do you feel that they should be compensated for those losses in any way?

Ms. CORRIDON. Well, ultimately Plan participants should not be penalized by the botched contract and being charged for that settlement. As for their hardship in getting their loans and other requests processed so they could buy houses and so forth, definitely those people should be moved to the front of the line. They should not be treated as it comes in. I feel very strongly about that—the idea that if you applied in May and it is still June or July, that you should be moved to the front of the line.

Mr. DAVIS OF ILLINOIS. So you're saying that individuals who actually suffered losses should recoup those—I mean, that's what I would call not being penalized—and that individuals who were not

able to complete their transactions and all should be able to move to the front of the line?

Ms. CORRIDON. Yes, sir.

Mr. DAVIS OF ILLINOIS. Have you discussed these suggestions and plans with the new Board?

Ms. CORRIDON. We have not had the opportunity to have that discussion.

Mr. DAVIS OF ILLINOIS. Have you submitted them to them in any kind of way, sent them some correspondence saying, "Here's what we think you ought to be looking at or some of the things that you ought to be considering as you revamp the operation?"

Ms. CORRIDON. Well, the last ETAC meeting was in January 2002, so we haven't had an opportunity to have that discussion with them. And the next one is not scheduled until September 2003.

Mr. DAVIS OF ILLINOIS. So they may not be aware of some of these recommendations that you've got?

Ms. CORRIDON. That is correct.

Mr. DAVIS OF ILLINOIS. OK. Mr. Rauschenbach, let me ask you if—and while it is difficult to speculate about what somebody else may or may not do, but you can deal on the basis of your own experiences, it seems to me that communication has been a real part of your success and the success of your operation. Do you feel that there may be some better way for the Thrift Board to communicate or have a different or better way, better line, more effective communication with its Plan participants so that they get a different sense of knowing what is taking place and what is going on?

Mr. RAUSCHENBACH. Congressman, I'd love to tell you that we've never had any service shortfalls on our side, but that wouldn't be true. In instances where we have experienced scrapes, if you will, one of the things that we've attempted to do after the fact is to acknowledge it frankly and to ensure that we communicate to our customers not only what the issues were but what we've done to correct the issues. Those kinds of apologies, if you will, after the fact have tended to be responded to in a very positive way by many of our customers in those rare instances where we have had those kind of issues arise.

Mr. DAVIS OF ILLINOIS. And let me ask you, do you feel that fiduciary impact that may be caused by an agency or an operated entity or the managers should be borne somehow or another by the entity and not by the individual members who may suffer as a result of that?

Mr. RAUSCHENBACH. We've always felt that it was important for us to do the right thing by our customers, and that means that we are ultimately accountable and responsible for the caliber of service that they experience. They shouldn't be the ones that are caught in the middle, if you will.

One of the things that we have done over the years to ensure that we try to keep things on track and in the right kind of pipeline for our customers is establish a corporate workflow system that allows us to identify what came to us when so that we can do first-in/first-out, and in instances where we become aware of a situation that requires immediate attention for a hardship of some

sort, we do our very best to try and move that to the front of the line.

Mr. DAVIS OF ILLINOIS. And so that means you are in agreement with some of the suggestions and recommendations made by Ms. Corridon?

Mr. RAUSCHENBACH. I think that would be fair to say, but, again, I have to observe I don't know enough details about TSP to understand all of the approaches that they are taking at this point in time. It's only what I've heard today, sir.

Mr. DAVIS OF ILLINOIS. Well, thank you both, and thank you, Mr. Chairman.

Chairman TOM DAVIS. Mr. Davis, thank you.

Let me just thank both of you for being here, and let me just ask one more question, Mr. Rauschenbach. What procedures do you have in place when participants encounter customer service problems with your Web site?

Mr. RAUSCHENBACH. Well, when they experience a Web site issue they can send an e-mail to us. They also have access through our toll-free numbers. And we have within our organization a group that we call "participant relations" that fields customer complaints, and that tends to be a very good body for trying to get things back on track again.

Chairman TOM DAVIS. Well, thank you both. I want to thank all our witnesses for appearing today, and I want to thank the staff for arranging this. We're going to keep the record open for 2 weeks to allow witnesses to include any further relevant information or thoughts that might occur to you, into the record.

I ask unanimous consent to insert into the record a statement from Colleen Kelly, the national president of the National Treasury Employees Union. Without objection, so ordered.

[The prepared statement of Ms. Kelly follows:]

Testimony

of

Colleen M. Kelley
National President
National Treasury Employees Union

on

Federal Retirement Program Website Problems

July 24, 2003
10:00 a.m.

Committee on Government Reform
2154 Rayburn Building

1750 H Street, N.W. • Washington, D.C. 20006 • (202) 572-5500

Chairman Davis, Members of the Committee,

Thank you very much for holding this important hearing today to examine the difficulties surrounding the implementation of the new daily valued Thrift Savings Plan record keeping system. I am Colleen Kelley, National President of the National Treasury Employees Union (NTEU) and I present this testimony today on behalf of the more than 150,000 federal employees and retirees represented by NTEU.

As you know, the Thrift Savings Plan is an integral part of the federal retirement package. It permits employees to invest in a variety of funds and enhance their expected retirement income. Three million participants have invested over $100 billion in the five investment funds, which make up the Thrift Savings Plan. NTEU has worked with Congress for many years to continually improve the Thrift Savings Plan benefits available to federal employees.

Recent enhancements have included increasing the percentage of income both Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) employees can contribute to their accounts, permitting immediate employee participation and adding new investment funds. NTEU also worked closely with Congress to enact legislation allowing federal employees over age 50 to make catch-up contributions to their accounts, bringing the Thrift Savings Plan into line with changes

made in private sector 401(k) accounts. And, NTEU has worked closely with the Federal Retirement Thrift Investment Board to make the new daily valued record keeping system available to the federal workforce.

The new record keeping system was anxiously awaited and, unfortunately, has experienced difficulties in its first month of operation. Thrift Savings Plan participants are understandably frustrated with the delays they have encountered in seeking loans on their retirement accounts and moving their retirement investments between funds. While it is my understanding that the Thrift Savings Plan web site is handling as many as 50,000 transactions an hour, many, many individuals have found they are unable to access their accounts in this manner, especially during peak hours. Those employees who have opted to contact the Thrift Savings Plan by phone have also experienced difficulties in reaching their offices and have also been unable to accomplish their transactions in a timely manner.

My office is in almost daily contact with the Federal Retirement Thrift Investment Board concerning these difficulties and it is our hope that they will be resolved shortly. I understand that the Board is in the process of hiring additional staff to process telephone and paper transactions and is working to ensure that the web-based system accommodates employee requests as quickly and efficiently as possible. Nonetheless, NTEU remains concerned that so many federal employees have been inconvenienced and looks forward to today's hearing on these important issues.

One of the reasons employees have expressed concern about the operation of the daily record keeping system is that they have waited so many years for it to begin. This new record keeping system has been six years in the making. As the Chairman knows, American Management Systems (AMS) was hired in 1997 to make the new daily valuation system available to Thrift Savings Plan participants. The project was expected to cost $30 million and to be available to participants by mid-2000. Constant delays and cost overruns eventually led the Federal Retirement Thrift Investment Board to terminate its contract with AMS and file suit against them. As evidence of the failure of this company to provide the services they had promised, at the time AMS was let go, they still could not provide the Board with a date upon which the new record keeping system would be up and running.

NTEU, along with the 13 other federal and postal employee unions and associations that make up the Employee Thrift Advisory Council filed a "friend of the court" brief in support of the Thrift Investment Board's suit against AMS. Although a settlement has now been reached resolving the various legal disputes between the parties, the enormous expense and extended completion times for the new record keeping system have only added to employee frustrations.

This fiasco presented yet another example of the dangers of contracting government work to the private sector. AMS, like so many other contractors doing business with the federal government, failed to deliver on its promises. This is exactly the type of worst-case scenario in federal contracting that we so frequently witness. In

this case, the contractor appears to have substantially underestimated the difficulty and cost of completing the job, which led to repeated requests for extensions and serious cost overruns. It is precisely cases like this one that underscore the need for Congressional legislation to track contracting efforts and require that the services they promise are delivered on time and on budget.

Before privatizing even more government work, the taxpayers deserve to know exactly how their tax dollars are being spent on contracts. Agencies should be required to track how much the contractors' work costs the taxpayers, how the actual costs of the contract compare to what the contractors originally promised, whether the contractors are delivering the services they promised to deliver within the timeframes they promised, and whether the services are being delivered at an acceptable level of quality.

Once a contractor gets a contract, that work is out the door and rarely – if ever – scrutinized again. For example, Mellon Bank, a contractor hired by the IRS as part of its "lockbox program," lost, shredded, or removed 70,000 taxpayer checks worth $1.2 billion in revenues for the U.S. Treasury. In January of this year, GAO issued a report (GAO-03-299) critical of the inadequate oversight of Mellon Bank. Among other things, GAO found that "oversight of lockbox banks was not fully effective for fiscal year 2002 to ensure that taxpayer data and receipts were adequately safeguarded and properly processed."

The Mellon Bank case is relevant to TSP, as it is another example of taxpayer dollars being wasted on contractors. Congress and the Administration should not continue the aggressive push to become more reliant on contractors, and instead should put in place reliable government-wide systems and provide adequate staffing to track the work of contractors. The American taxpayers do not want to have their tax dollars being spent to clean up after contractors. They want the same level of transparency and accountability of the work performed by contractors as there is of the work performed by federal employees.

Thank you again Mr. Chairman for holding this hearing today. I very much appreciate the opportunity to provide the Committee with this testimony.

Chairman TOM DAVIS. Thank you very much. The hearing is adjourned.

[Whereupon, at 12:22 p.m., the committee proceeded to other matters.]

[Additional information submitted for the hearing record follows:]

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

August 18, 2003

The Honorable Thomas Davis
Chairman
House Committee on Government Reform
House of Representatives
Washington, D.C. 20515

Dear Chairman Davis:

Andrew Saul, the Board's Chairman, and I appreciated the opportunity to appear before your Committee on July 24. I am also pleased to provide for the record responses to the subsequent questions you directed to Mr. Saul.

I hope this information is helpful.

Sincerely,

Gary A. Amelio
Executive Director

Enclosure

Question: During the hearing, examples were provided of Thrift Savings Plan (TSP) participants being unable to pay education bills, medical expenses, or home mortgages because of a backlog in loan applications or because the applications were either lost or misplaced.

What recourse do TSP participants have if they suffer damages as a result of improper handling of loan applications?

Answer: Since 1987, the TSP's regulations have provided that, in the event of an error committed by it or by the TSP record keeper, the Agency will credit a participant's account with the earnings that he or she would have received but for the error. 52 Fed. Reg. 17,919 (1987); 5 C.F.R. § 1605.21 (2002). Delay in the processing of a loan application will not involve lost earnings because the funds remain on account and continue to receive earnings until they are disbursed. Delay in the processing of a loan application may involve "consequential damages," such as lost opportunity costs (costs arising out of opportunities missed due to the length of time associated with processing the loan request). The Agency has never assumed responsibility for consequential damages because the Agency's authority to make payments from the Fund is limited by statute and does not include payments for such damages. See 5 U.S.C. § 8437(c).

Question: What recourse does a plan participant have if the damages are caused by a fiduciary's negligence or breach of duty?

Answer: If a participant suffers damages "for injury or loss of property caused by the negligent or wrongful act or omission of any fiduciary while acting within the scope of his duties or employment," the participant may file suit against the United States in a Federal district court under the Federal Tort Claims Act. 5 U.S.C. § 8477(e)(3)(C)(ii).

Question: Does the TSP Board have a policy for notifying plan participants of their rights should transactions be either mishandled or not handled in a timely fashion? If so, what is the policy and what is included in the notice?

Answer: The Agency's procedures for submitting a claim for damages is described in detail in its regulations at 5 C.F.R. § 1605.22 (2002).

Question: Has the TSP Board, its Executive Director, or any agent of the Board received any written claims for damages? If so, how many claims have been received? What was done with the claims? What responses were given to claimants?

Answer: The Agency has received approximately 500 letters complaining of a lack of service since implementation of the new record keeping system. The vast majority of these letters simply express participants' frustration at not being able to access their accounts via the web or to obtain the status of a loan request via the ThriftLine. Of these 500 letters, only three (3) include claims for consequential damages.

We assume that the low number of claims is due to the fact that many of the loan applicants were repeat borrowers who were aware of the longstanding published TSP service standard of 4-8 weeks for loan processing. (As explained on page 30 of the enclosed Plan Summary, the process generally takes from 6-8 weeks and can take as much as 4-5 weeks even if certain precautions are taken, as noted on pages 13-14 of the enclosed Loan Booklet. Both of these publications are the most recent editions issued before the June 16, 2003, cutover to the new record keeping system.) Others, no doubt, recognized that their funds continued to receive investment earnings each day until they were actually disbursed in the form of a loan (or withdrawal) and, thus, they did not see a basis for claiming additional compensation.

The Agency did receive a large number (approximately 34) of requests for lost earnings on monies that were sent to the TSP but were not promptly posted to individual accounts. These included loan repayment checks and funds transferred from other retirement plans that were delayed due to the paper processing backlog. In many of these cases, the checks were cashed and invested, and earnings were spread across all TSP participants' accounts, until the monies could be posted to the appropriate individual account.

The Agency has long honored similar individual requests for lost earnings. Although many participants do not request lost earnings (which are generally very small amounts or, in some cases, could even be negative due to the investment performance of the personally-selected Funds), we are honoring the requests for lost earnings that we receive in connection with delays in posting funds to individual accounts during the transition period.

Although attention has understandably been focused on cases where participants have had to wait for loan or withdrawal payments, it is also useful to examine the overall production numbers on these disbursements during the period the Agency was transitioning to the new record keeping system. As can be seen from the attached report, record or near record numbers of loans and withdrawals were disbursed in June and July. Thus far in August, record numbers are again being successfully processed through the new record keeping system.