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ADDING A REAL ESTATE INVESTMENT TRUST [REIT] INDEX OPTION TO THE THRIFT SAVINGS PLAN: CONSIDERING THE VIEWS AND ADVISORY ROLE OF THE EMPLOYEE THRIFT ADVISORY COUNCIL [ETAC]

HEARING

BEFORE THE

SUBCOMMITTEE ON THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

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ADDING A REAL ESTATE INVESTMENT TRUST [REIT] INDEX OPTION TO THE THRIFT SAVINGS PLAN: CONSIDERING THE VIEWS AND ADVISORY ROLE OF THE EMPLOYEE THRIFT ADVISORY COUNCIL [ETAC]

WEDNESDAY, APRIL 26, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FEDERAL WORKFORCE AND AGENCY ORGANIZATION,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 3:03 p.m., in room 2154, Rayburn House Office Building, Hon. Jon C. Porter (chairman of the subcommittee) presiding.

Present: Representatives Porter, Tom Davis, Issa, Marchant, McHenry, Schmidt, Davis of Illinois, Norton, Cummings, and Van Hollen.

Staff present: Ronald Martinson, staff director; Chad Bungard, deputy staff director/chief counsel; Chad Christofferson, legislative assistant; Shannon Meade, professional staff member; Patrick Jennings, OPM detailee/senior counsel; Alex Cooper, legislative assistant; Mark Stephenson and Tania Shand, minority professional staff members; and Teresa Coufal, minority assistant clerk.

Mr. PORTER. I would like to bring the meeting to order. Today we are discussing adding a real estate investment trust index option to the Thrift Savings Plan: considering the views and advisory role of the Employee Thrift Advisory Council. Welcome, everyone. I appreciate you being here today.

Mark Twain once said, "Put all your eggs in one basket and watch the basket." The point is that such a maneuver is risky and unwise, and if you are going to do something that foolish, you better keep your eye on the basket at all times. Unfortunately, under the current leadership, the makeup of the Thrift Savings Plan does not provide Federal employees with the ability to diversify their funds for retirement. Between 2000 and 2003, the highest average annual rate of return on any stock in the fund in the Thrift Savings Plan was minus 0.1 percent, while the rate of return on real estate investment trusts was near plus 20 percent. During that time period, there was no room for diversification, and Federal employees throughout the Government lost their hard-earned money. The fact that REITs have had a historically low correlation of returns to the returns from other TSP funds is important to protect an investor from market volatility. This was emphasized by a sen-

ior analyst for Morningstar in a Washington Post article in January in which the analyst was quoted as saying, "Real estate stocks do not move in lockstep with the rest of the market, and that makes them good portfolio diversifiers."

Yale University Endowment Chief Investment Officer David Swensen urges a real estate allocation of 20 percent for investors, which could be accomplished through investment in REIT stocks. This is a complete impossibility in the Thrift Savings Plan. While REITs and real estate have performed well in recent years, the performance of REITs and real estate over the longer term is what makes the case and is the reason why well-established retirement savings plans have routinely made a significant allocation to commercial real estate investment. For the past 30 years, REITs have outperformed the Dow Jones Industrials, the NASDAQ Composite, the S&P 500. IBM, the sponsor of the largest private sector 401(k) plan in the country, offers a distinct REIT option for plan participants and told the subcommittee last year that "we are committed to REITs as a core asset class for defined contribution plans . . . Their return, volatility, diversification, dividend yield, and taxation characteristics make the case." IBM is not alone. Many large corporations offer distinct REIT options in their 401(k) plans, including General Motors, Verizon, and Ford Motor Co.

Congressional consideration of the addition of options to the Thrift Savings Plan is by no means unprecedented. After sufficient congressional consideration, Congress established the first three funds to the Thrift Savings Plan when it created the Board. In anticipation of the need for more funds once the Board got up and running, the "Joint Explanatory Statement of the Committee of the Conference" stated, "Should additional investment vehicles become desirable, Congress can authorize them." When crafting the enabling legislation for the Thrift Savings Plan, according to the Conference Statement, Congress expressed concern about political manipulation by Board members—the kind of manipulation and lobbying that the Board has been engaging in over the past several months. That is why Congress set up the structure of the funds to be passively managed by the Board, as opposed to being actively managed. The only reference to congressional political manipulation in the Conference Statement was a concern, rightfully so, about the possibility of some sort of "raid" on the trust fund by Congress during budget cuts, not about Congress selecting new index funds.

H.R. 1578 is simply about providing choice—not unlike the private sector has—to Federal employees and giving them the opportunity to diversify their portfolio. It is nothing more. It is Congress' responsibility as ultimate fiduciaries of the TSP to bring these opportunities within reach of every Federal employee. Adding options to the Thrift Savings Plan in an effort to enable proper diversification has been a priority of this subcommittee long before I was here and for the past couple of years starting in July 2004 when then-Subcommittee Chairman Jo Ann Davis sent a letter to the Executive Director of the Federal Retirement Thrift Investment Board Gary Amelio requesting advice on potentially adding a REIT index option to the Thrift Savings Plan. Mr. Amelio responded by briefing subcommittee staff the next month. At that briefing, Amelio ex-

pressed concern with the addition of a REIT index fund to the Thrift Savings Plan at that time mostly because of the Board's focus on rolling out lifecycle funds. He did state, however, that if he were called upon to add another option to a retirement plan with the same funds as those in the TSP, the first thing he would add would be a REIT index fund option.

After several months of correspondence between the Board, the subcommittee, and outside experts, the Board maintained their opposition to the addition of a REITs index fund since, according to the Board in January of last year, the "funds currently offered by the TSP are sufficient for the construction of risk-optimized portfolios appropriate for TSP participants." This statement is clearly untrue. Simply ask some of the participants in the TSP—which, by the way, does not happen currently by the Board—including some of my colleagues up here on the dais who probably lost some money in the TSP between 2000 and 2003 because there was no opportunity to sufficiently diversify their portfolio.

The problem is that the TSP managers are not asking plan participants for their opinion. According to a 2005 GAO report, "TSP managers said that they have not surveyed participants since the early 1990's" and GAO found that "because TSP relies on customer complaints as an indicator of participant satisfaction, its managers do not have the information necessary to determine the degree to which participants are satisfied with the services." GAO further found that the "TSP managers' reliance on complaints does not take into account participants who are dissatisfied and have not complained or do not know where to complain[.]" Participants are left with the burdensome task of sending letters to the TSP managers themselves or the call center. This GAO finding belies Executive Director Amelio's claims at last year's hearing that he gets a great deal of feedback based on letters he received when the TSP suffered a significant recordkeeping problem.

The GAO also found that the Employee Thrift Advisory Council is equally unhelpful in assisting the TSP managers in understanding the needs and wants of the participants. The GAO found that "while some ETAC representatives provide TSP managers with feedback on draft TSP publications, legislative initiatives, and other issues, ETAC representatives do not systematically solicit feedback from their constituents. Some ETAC representatives may receive sporadic feedback from participants, but ETAC does not conduct surveys of plan participants." I thought we were in a democracy. Apparently we are not. GAO concluded, therefore, that "the extent to which participants within the represented agencies and employee organizations provide feedback to the ETAC representative is unclear."

This ambiguity was demonstrated this past month when ETAC voted on a resolution opposing the addition of a REIT index fund at the present time. According to a letter to the subcommittee from the Senior Executives Association, one of the ETAC members that the SEA appointed to the Council at an ETAC meeting took a position not held by the SEA itself. Thus, not only did that member not survey any members of the SEA, it took a position antithetical to the SEA policy. A further indication that ETAC was not acting in a full representative fashion when it considered the resolution on

the addition of a REIT index fund was demonstrated when the Board's Executive Director Gary Amelio, who is not an ETAC member, recommended language to the Council that was ultimately adopted stating that the "development of a new fund must come from an independent process developed by the Plan's fiduciaries." I mention the problems with ETAC not to criticize the employee groups, who are doing what they can with a broken process and who are forced to take action and make recommendations without the benefit of good tools for gathering important information from the Federal employees they serve. I do join GAO with the criticism of ETAC being the primary tool to get supposed employee feedback. It simply can't do the job.

In its recommendations for executive action, GAO proposed that the Federal Retirement Thrift Investment Board direct the Executive Director to "(1) develop a systematic effort to assess TSP participants' overall satisfaction with the services provided and (2) institutionalize the routine collection of information and systematic assessment of industry trends and innovations." According to GAO, "the Board disagreed with our recommendation regarding the implementation of an evaluation effort to assess the level of customer satisfaction . . . As we state in our report, the private sector plan managers that we spoke with believe that direct, ongoing participant feedback is needed to respond to the changing needs of plan participants. Without obtaining more frequent feedback from participants, TSP managers cannot determine what improvement would best satisfy participants' needs." Understanding what a Federal employee really wants in the Thrift Savings Plan is clearly an issue with the Plan's current managers.

After hearing the Board's concerns and discussing the bill with outside experts, I, along with Representative Chris Van Hollen and full committee Chairman Tom Davis, introduced H.R. 1578, a bill that now has 169 cosponsors, ranging from House Minority Leader Nancy Pelosi to House Majority Leader John Boehner. This is not a partisan bill but, rather, a bipartisan effort that boasts 71 Democrats and 98 Republican cosponsors, all of whom want to provide Federal employees with the opportunity to further diversify their portfolios. A week after introduction, the subcommittee held a broad-based hearing on the merits of adding a REITs index fund as an option to the TSP.

At that hearing over a year ago, Executive Director Amelio told the subcommittee that "the Board members and I have decided to engage a reputable investment consulting firm to assist in analyzing various investment-related plan issues," including REITs, and he specifically requested that "any consideration of legislation be delayed at least until after the appropriate review by the plan's fiduciaries." However, the Board took no effort at that time to act on its promise to the subcommittee. A month after the hearing, in response to the subcommittee's question for the record with regard to when the study of all possible additions to the TSP would be made available, the Board made no time commitment and indicated that it would study the options on its own timetable. In July, both the Senate and the House sent separate letters to the Board requesting a written report on additional investment options to the TSP by January 1, 2006—months after our initial hearing. The

House letter emphasized the importance of a timely report so that it could act on the Board's recommendations to this Congress. The Board responded to the letters in August stating that it expected to select an investment consultant by September 2005. Although the Board expressed no intention on meeting the Senate and the House deadline of January 2006, it did not indicate that the study would be completed after Congress adjourned sine die.

In January, the TSP Board's staff told Government Reform Committee staff that it had contracted with Ennis Knupp and Associates to conduct a four-part evaluation of the TSP and, notwithstanding repeated congressional requests that the study of additional options be completed with sufficient time to consider legislation in the 109th Congress, the TSP staff revealed that such study would be the fourth and final part of the contract and would probably not be completed until after Congress adjourned sine die and possibly not until 2007. A March 2006 Government Executive article correctly characterized the Board's actions, "TSP administrators already have voiced their discontent with the addition of a REIT fund, and have stalled its progress by hiring an outside consultant who will review a range of possible funds by the end of 2006." At an April Board meeting, Board Member Thomas Fink even recognized that the decision to call in a consultant to review existing TSP funds and investment policy probably created a perception on the Hill that the Board is stalling on legislation in hopes that the REIT proposal will fade.

The Board's unresponsiveness and stall tactics to delay the study—a study that they requested and we agreed to—of investment options to the Thrift Savings Plan can no longer be tolerated. We cannot have another period, like we did between 2000 and 2003, where Federal employees lost thousands of potential dollars. As the Federal Government seeks to modernize its recruitment and retention tools to keep pace with the private sector, additional investment options are important in accomplishing this goal. According to the Board's own figures, the percentage of private companies offering five or less options, like the TSP, dropped from 7 percent to 1 percent from 1999 to 2003. Conversely, the average number of investment options available today in all private sector 401(k) plans is 18 and is 20 for private sector 401(k) participants with 5,000 or more participants. As the number of investment options rises, employees can diversify their assets and protect their investments from dramatic volatility in the market.

This subcommittee has been studying the addition of a REIT index fund for almost 2 years, including holding two congressional hearings and engaging in numerous discussions and correspondence with the Board and outside experts. Although it could have been helpful to have had an additional study conducted by the Board's consultant, the Board does not see the TSP's lack of diversification as a problem and has, therefore, not responded to Congress' expressed desire to expand options this Congress. Nonetheless, the subcommittee's study of the addition of a REIT index fund to the TSP reveals that it is the next best option to the Thrift Savings Plan and would provide significant diversification benefits. Burton Malkiel, a professor of economics at Princeton University, was recently quoted in Government Executive as stating that "The

Federal Thrift Savings Plan serves as an excellent model for well-designed retirement plans . . . it could be improved, however, by including an additional class in the mix of funds—real estate investment trusts." I, and at least 169 other congressional members, agree.

I would like to thank our witnesses for being here today.

[The prepared statement of Hon. Jon C. Porter follows:]

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BERNARD SANDERS, VERMONT
INDEPENDENT

Opening Statement of Chairman Jon Porter

Hearing of the House Government Reform
Subcommittee on Federal Workforce and Agency Organization

"Adding a Real Estate Investment Trust (REIT) Index Option to the Thrift Savings Plan: Considering the Views and Advisory Role of the Employee Thrift Advisory Council (ETAC)"

April 26, 2006

Mark Twain once said, "Put all your eggs in the one basket and - WATCH THAT BASKET." The point is that such a maneuver is risky and unwise and if you are going to do something that foolish you better keep your eyes on the basket at all times. Unfortunately, the current makeup of the Thrift Savings Plan does not provide Federal employees with the ability to diversify their funds for retirement. Between 2000 and 2003, the highest average annual rate of return on any stock in the fund in the Thrift Savings Plan was -.1%, the rate of return on REITs was near +20%. During that time period, there was no room for diversification and Federal employees throughout the government lost their hard earned money. The fact that REITs have had an historically low correlation of returns to the returns from other TSP funds is important to protect an investor from market volatility. This was emphasized by a senior analyst for Morningstar in a Washington Post article in January, in which the analyst was quoted as saying: "Real estate stocks do not move in lockstep with the rest of the market, and that makes them good portfolio diversifiers."

Yale University Endowment Chief Investment Officer David Swensen urges a real estate allocation of 20% for investors, which could be accomplished through investment in REIT stocks. This is a complete impossibility in the Thrift Savings Plan. While REITs and real estate have performed well in recent years, the performance of REITs and real estate over the longer term is what makes the case and is the reason why well established retirement savings plans have routinely made a significant allocation to commercial real estate investment. For the past 30 years, REITs have outperformed the Dow Jones Industrials, the NASDAQ Composite, and the S & P 500. IBM, the sponsor of the largest private sector 401(k) plan in the country, offers a distinct REIT option for plan participants and told the Subcommittee last year that "we are committed to REITs as a core asset class for defined contribution plans . . . Their return, volatility, diversification, dividend yield, and taxation characteristics make the case." IBM is not alone. Many large corporations offer distinct REIT options in their 401(k) plans, including General Motors, Verizon, and Ford Motor Company.

Congressional consideration of the addition of options to the Thrift Savings Plan is by no means unprecedented. After sufficient Congressional consideration, Congress established the first three funds to the Thrift Savings Plan when it created the board. In anticipation of the need for more funds once the Board got up and running, the *Joint Explanatory Statement of the Committee of the Conference* stated, "Should additional investment vehicles become desirable, Congress can authorize them." When crafting the enabling legislation for the Thrift Saving Plan, according to the Conference Statement, Congress expressed concern about political manipulation by the Board members – the kind of manipulation and lobbying that the Board has been engaging in over the past several months. That is why Congress set up the structure of the funds to be passively managed by the Board, as opposed to being actively managed. The only reference to Congressional political manipulation in the Conference Statement was a concern about the possibility of some sort of "raid" on the trust fund by Congress during budget cuts, not about Congress selecting new index funds.

H.R. 1578 is simply about providing choice to Federal employees and giving them the opportunity to diversify their portfolio. It is nothing more. It is Congress' responsibility as ultimate fiduciaries of the TSP to bring these opportunities within reach of every employee. Adding options to the Thrift Savings Plan in an effort to enable proper diversification has been a priority of the Subcommittee for the past couple of years. In July 21, 2004, then-Subcommittee Chairman Jo Ann Davis sent a letter to the Executive Director of the Federal Retirement Thrift Investment Board Gary Amelio requesting advice on potentially adding a REIT index option to the Thrift Savings Plan. Amelio responded by briefing Subcommittee staff the next month. At that briefing, Amelio expressed concern with the addition of a REIT index fund to the Thrift Savings Plan at that time mostly because of the Board's focus on rolling out lifecycle funds. He did state, however, that if he were called upon to add another option to a retirement plan with the same funds as those in the TSP, the first thing he would add would be a REIT Index Fund option.

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After hearing the Board's concerns and discussing the bill with outside experts I, along with Representative Chris Van Hollen and full committee Chairman Tom Davis, introduced H.R. 1578, a bill that now has 169 co-sponsors, ranging from House Minority Leader Nancy Pelosi to House Majority Leader John Boehner. This is not a partisan bill, but rather a bi-partisan effort that boasts 71 Democrats and 98 Republican cosponsors, all of whom want to provide Federal employees with the opportunity to further diversify their portfolios. A week after introduction, the Subcommittee held a broad-based hearing on the merits of adding a REITS index fund as an option to the TSP.

At that hearing over a year ago, Executive Director Amelio told the Subcommittee that "the Board members and I have decided to engage a reputable investment consulting firm to

assist in analyzing various investment-related plan issues," including REITS, and he specifically requested that "any consideration of legislation be delayed at least until after the appropriate review by the plan's fiduciaries." However, the Board took no effort at that time to act on its promise to the Subcommittee. A month after the hearing, in response to the Subcommittee's question for the record with regard to when the study of all possible additions to the TSP would be made available, the Board made no time commitment and indicated that it would study the options on its own timetable. In July, both the Senate and the House sent separate letters to the Board requesting a written report on additional investment options to the TSP by January 1, 2006. The House letter emphasized the importance of a timely report so that it could act on the Board's recommendations this Congress. The Board responded to the letters in August stating that it expected to select an investment consultant by September 2005. Although the Board expressed no intention on meeting the Senate and House deadline of January 2006, it did not indicate that the study would be completed after Congress adjourned *sine die.*

In January, the TSP Board's staff told Government Reform Committee staff that it had contracted with Ennis Knupp and Associates to conduct a four-part evaluation of the TSP and, notwithstanding repeated Congressional requests that the study of additional options be completed with sufficient time to consider legislation in the 109th Congress, the TSP staff revealed that such study would be the fourth and final part of the contract and would probably not be completed until after Congress adjourned *sine die* and possibly not until 2007. A March 2006 *Government Executive* article correctly characterized the Board's action: "TSP administrators already have voiced their discontent with the addition of a REIT fund, and have stalled its progress by hiring an outside consultant who will review a range of possible funds by the end of 2006." At an April Board member meeting, Board Member Thomas Fink even recognized that the decision to call in a consultant to review existing TSP funds and investment policy probably created a perception on Capitol Hill that the board is stalling on legislation in hopes that the REIT proposal will fade.

The Board's unresponsiveness and stall tactics to delay the study of investment options to the Thrift Savings Plan can no longer be tolerated. We cannot have another period, like we did between 2000 and 2003, where Federal employees lost thousands of dollars. As the Federal government seeks to modernize its recruitment and retention tools to keep pace with the private sector, additional investment options are important in accomplishing this goal. According to the Board's own figures, the percentage of private companies offering five or less options, like the TSP, dropped from 7% to 1% from 1999 to 2003. Conversely, the average number of investment options available today in all private sector 401(k) plans is 18 and is 20 for private sector 401(k) participants with 5,000 or more participants. As the number of investment options rises, employees can diversify their assets and protect their investments from dramatic volatility in the market.

This Subcommittee has been studying the addition of a REIT index fund option for almost two years, including holding two Congressional hearings and engaging in numerous discussions and correspondence with the Board and outside experts. Although it could have been helpful to have had an additional study conducted by the Board's consultant, the Board does not see the TSP's lack of diversification as a problem and has, therefore, not responded to Congress' expressed desire to expand options this Congress. Nonetheless, the Subcommittee's study of the addition of a REIT index fund to the TSP reveals that it is the next best option to the

Thrift Savings Plan and would provide significant diversification benefits. Burton Malkiel, a professor of economics at Princeton University, was recently quoted in Government Executive as stating that "The Federal Thrift Savings Plan serves as an excellent model for well-designed retirement plans . . . it could be improved, however, by including an additional class in the mix of funds – real estate investment trusts." I, and at least 169 other Congressional members, agree.

I thank our witnesses for being here, and I look forward to the discussion.

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Mr. PORTER. Noting that we do have a quorum present, I would like to also introduce Ranking Minority Member Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman, and I want to thank you for agreeing to hold this second hearing on the possible addition of a real estate investment [REIT] fund to the Thrift Savings Plan [TSP]. As you know, last month, the Democratic members of the subcommittee requested that such a hearing be held to discuss the merits of adding a REIT fund to the TSP and to hear the views of the Employee Thrift Advisory Council [ETAC]. While I am pleased that this hearing is being held, I must admit that I am indeed disappointed that only one of our witnesses, ETAC Chairman Jim Sauber, was invited to testify and that the scope of the hearing seems to center more on ETAC and the Thrift Board's decisionmaking process, rather than on why ETAC took the extraordinary step of passing a resolution in opposition to H.R. 1578, the Real Estate Investment Thrift Savings Act.

To ensure that the members of the Thrift Board remain aware of the interests and concerns of the Thrift Plan participants and beneficiaries, ETAC was created in the TSP's authorizing legislation. ETAC represents over 2.6 million Federal employees and retirees, and several ETAC representatives have served on ETAC since the TSP's inception in 1986.

When a bill is opposed by the people it is supposed to benefit, this subcommittee has an obligation to research the issue further. Therefore, to gain a more comprehensive understanding of this issue, I request that the written statements of Terrence Duffy, chairman of the Board of the Chicago Mercantile and House need to the TSP Board; Frank Cavanaugh, the first Executive Director and CEO of the Board; and Mike Miles, an independent certified financial planner licensee and registered employee benefits consultant, be submitted for the record. And I ask consent to have these items submitted.

Mr. PORTER. Without objection.

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

[The information referred to follows:]

STATEMENT FOR THE RECORD BY THE HONORABLE TERRENCE DUFFY BEFORE THE HOUSE SUBCOMMIMTTEE ON THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION
APRIL 26, 2006

Mr. Chairman and members of the Subcommittee, my name is Terrence Duffy. Since June 20, 2003, I have served as a member of the Federal Retirement Thrift Investment Board after having been recommended for this position by the Speaker of the U.S. House of Representatives. In this part-time role, I am one of five Board members required by law to develop and establish the investment policies of the Thrift Savings Plan (TSP) for Federal employees. In my full-time job, I serve as Chairman of the Board of the Chicago Mercantile Exchange. I welcome the opportunity to submit my statement for the record.

The purpose of this hearing is to discuss a legislative initiative that would establish a Real Estate Investment Trust (REIT) fund in the TSP. I and the five other TSP fiduciaries (all Board members plus the Executive Director) oppose this legislation.

In his January 18, 2005, letter to the Subcommittee, the Executive Director provided a technical analysis demonstrating that the proponents of the REIT fund had overstated the case for such a fund. Additionally, in their testimony of April 19, 2005, the Executive Director and the Chairman of the Board explained why the proposed REIT fund would be the wrong fund at the wrong time for the TSP. They also described the appropriate process which fiduciaries should use to determine whether and which investment options should be added or removed from a plan like the TSP. I support what has been stated in this regard by my fellow fiduciaries.

As one who has spent his entire professional career in the private U.S. financial markets, my purpose today is twofold. First, I would like to elaborate on the role of a fiduciary in a plan like the TSP. Second, I would like to discuss my experience regarding what makes a plan like the TSP successful for its participants.

Role of a Fiduciary

Fiduciary relationships require the highest duty of care under law. In the case of the Thrift Investment Board, the enabling legislation requires that Board members "establish" and

"develop" TSP investment policies. 5 U.S.C. § 8472(f), 8475. In discharging these responsibilities, we must act "solely in the interest of plan participants and beneficiaries." 5 U.S.C. §§ 8472 and 8477. This requirement provides Federal employees with the assurance that I and the other fiduciaries will perform our duties as investment experts exclusively in their interests as we make any and all decisions regarding TSP policies.

This arrangement is quite unusual in the environment of Washington, D.C., where elected leaders must daily make judgments and identify compromises necessary to do the public's work. The difference is that in doing the public's work, political leaders must balance the interests of various constituencies in deciding how taxpayer resources will be deployed. The TSP has no taxpayer resources; only participant funds. The Board does not compromise with regard to participants' interests in its policy deliberations.

Board members are the primary actors in devising TSP policies, and are particularly suited to carry out these responsibilities. In order to qualify for their positions, Board members must "have substantial experience, training, and expertise in the management of financial investments and pension benefit plans." Id. § 8472(d). Each of the members serving on the Board must satisfy this standard, be nominated by the President, and confirmed in the position by the U.S. Senate.

I have learned that throughout its 20-year existence, the Board has competently discharged its investment policy responsibilities. Between 1987 and 1991, the Board developed policies regarding the initial three funds. Between 1992 and 1995, the Board developed investment policy requiring the addition of two new funds and proposed authorizing legislation to Congress. Congress approved the legislation and, in 2001, the Board established the Small Capitalization Stock Index Investment Fund and the International Stock Index Investment Fund.

Since my arrival in 2003, the Board determined that the Thrift Savings Plan should offer asset allocation models. It developed an investment policy that provided for five additional models. These "lifecycle" models were established in August 2005, and have already attracted more than $10 billion or five percent of TSP fund totals.

Thus, investment policy establishment and development have been and remain ongoing core requirements for the Board members. Our future plans in this regard were detailed in the August 11, 2005, letter signed by all six fiduciaries and sent to all eight Congressional committee and Subcommittee leaders.

Elements of Success

In my view, the TSP has been extraordinarily successful because of its simplicity. I am aware of no other large plan that can point to the high voluntary participation rate of 86 percent and the low cost of five basis points (or one-twentieth of one percent) for participants in 2005. The basis of our success is no secret. It was clearly articulated by Jane Bryant Quinn on August 19, 2002, when Newsweek magazine carried her cover story entitled "5 Ways to Fix the 401(k)."

Ms. Quinn's first example of how to fix 401(k) plans was to cite the TSP and its limited choice of broad-based funds. In Ms. Quinn's estimation, it provides "a perfect 401(k)." She goes on to say the TSP's "plain vanilla approach saves you from obsessing over six different growth funds."

Her mantra is echoed and enlarged upon by CNBC's Mad Money guru James J. Cramer in his November 29, 2004, article in New York Magazine. According to Mr. Cramer,

> ...there is, ironically, one way in which we could cut the costs, keep fees low, offer strict diversification, and make sure that nobody gets ripped off: Do it the federal way. That's right -- the much-maligned federal government, which administers the Thrift Savings Plan for all federal employees. The plan strikes a perfect balance of choice with responsible investing. It's a simple menu of diversified stocks, fixed-income investments, government bonds, and international equities. The TSP doesn't let individuals screw it up with reckless speculation or let Wall Street jam individuals with high fees and crummy mutual-fund offerings. It's a better program than just about any 401(k) offering out there.

> Of course, the TSP doesn't enrich the big brokerage firms, and it doesn't allow you to shoot the lights out.

Both Quinn and Cramer are sharp-eyed observers of the financial world, and I agree with them. In my full-time position, we offer a fast-paced marketplace for sophisticated investors with an interest in complex financial transactions. However, these are not the elements for success in the 401(k) world.

Rather, the recent interest in legislation to provide investment advice to 401(k) participants shows that even the Congress has recognized that the mix and complexity of investment options in many 401(k) plans has already outpaced the ability of participants to make their retirement investment choices with confidence. Apparently, existing 401(k) education efforts are not generally up to the task of educating participants about how to successfully fold multiple instruments, including a separate REIT fund, into their retirement portfolios.

This may explain the absence of a strong appetite for REIT funds in retirement plans where they are already available. Three recent published surveys have shown that REIT funds are not widely embraced by private sector 401(k) plans or their participants. Depending on the survey examined, a REIT option is only available in 10[1], 13[2], or 15.6 percent[3] of the plans surveyed. Perhaps more importantly, in plans where they are offered, these REIT funds have attracted very small amounts of participant investment: one-half[4], one[5] and two percent[6], respectively.[7]

As a professional in the business and financial world, I have no reason to believe that Federal employees would behave any differently than their private sector counterparts if a REIT fund were offered in the TSP. Participation would be consistent with the very low rates shown in the surveys. More importantly,

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[1] 2005 Trends and Experience in 401(k) Plans, Hewitt Associates, p. 39.
[2] IOMA's Annual Defined Contribution Survey, 2004, Institute of Management and Administration, p. 89 (Figure 11-6).
[3] 48th Annual Survey of Profit Sharing and 401(k) Plans, Reflecting 2004 Plan Experience, Profit Sharing/401(k) Council of America, p. 28 (Table 44).
[4] 48th Annual Survey, p. 31 (Table 49)
[5] IOMA's Survey, p. 90 (Figure 11-7).
[6] Hewitt Survey, p. 41.
[7] In its submission of May 13, 2005, to the Subcommittee, NAREIT cites unpublished results of one survey. However, even this special analysis of unpublished survey data places the allocation at only 3.6 percent of plan assets.

a REIT fund would be inconsistent with the otherwise broad-based portfolio of TSP funds. Since our broad-based funds already include REIT securities, the legislation would create overlapping TSP choices for the first time. In my estimation, this would unnecessarily complicate the plan, create confusion, and undermine the simplicity of the TSP. None of these potential outcomes would enhance investor confidence or voluntary participation.

I stand with the other Board members and the Executive Director in pledging our intention to continue considering all opportunities to further improve the TSP. After we complete the process of competing the investment management contracts for our four existing index funds, we will have our investment consultant review the universe of potential investment options and plan features to help us begin to prepare for consideration of future improvements. This is the correct approach for the financial professionals with a fiduciary duty to the 3.6 million public servants, uniformed service members, and retirees who depend on the TSP for their retirement security.

Statement by Francis X. Cavanaugh
Before the Subcommittee on Federal Workforce and Agency Organization
Committee on Government Reform
U.S. House of Representatives
April 26, 2006

Mr. Chairman and Members of the Subcommittee:

Thank you for this opportunity to comment on H.R. 1578, a bill to provide a real estate stock index investment option under the Thrift Savings Plan (TSP) for Federal employees. I strongly oppose the bill, for reasons that I detail below.

I am a public finance consultant, but I have no client with an interest in this bill. I speak only for myself as a current retired participant in the TSP and as the first Executive Director and CEO (1986–1994) of the Federal Retirement Thrift Investment Board (Board), the agency that administers the TSP. Before becoming the Board's Executive Director, I was an economist and the senior career executive at the U.S. Treasury Department advising on Federal borrowing, lending, and investment policies.

The Great Experiment: A "Businesslike" Government Agency. When we set up the TSP in 1986, I received many inquiries from Federal employees who were reluctant to commit their retirement savings to the plan because of concerns that the management of their funds might be subject to political influences. I assured them that this could never happen; Congress had anticipated their concerns and protected them from political influence. In the Federal Employees' Retirement System Act of 1986 (FERSA), as amended, all TSP stock funds are required to be broad-based index funds that do not favor any particular industry. FERSA also ensured that there would be no White House interference in the TSP by exempting it from OMB budget/appropriations and regulatory controls. Such an extraordinary exemption was appropriate because the funds in the Thrift Savings Fund are not owned by the government. Unlike the Social Security trust funds, for example, the Thrift Savings Fund is owned entirely by the individual TSP participants. FERSA also took the rare step of authorizing a permanent indefinite appropriation (like the appropriation for interest on the public debt) for Board expenditures from the Thrift Savings Fund, so the Board would never have to go to Congress for spending authority. Thus, Congress deliberately insulated the Board from Congress itself, and insulated Congress from the lobbying of special interests. The following statements from the conference report on FERSA made clear the intent of Congress:

> A great deal of concern was raised about the possibility of political manipulation of large pools of thrift plan money. [FERSA] was designed to preclude that possibility.

> Concerns over the specter of political involvement in the thrift plan management seem to focus on two distinct issues. One, the Board, composed of Presidential appointees, could be susceptible to pressure from an Administration. Two, the Congress might be tempted to use the large pool of thrift money for political purposes. Neither case would be likely to occur given present legal and constitutional restraints.
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> . . .
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> The employee owns [the money in the TSP] and it cannot be tampered with by any entity[,] including Congress.

H.R. Conf. Rep. 99-606, at 136-37 (1986), *reprinted in* 1986 U.S.C.C.AN. 1508, 1519-20.

Congress created such a uniquely independent Federal agency because of the concern that, without insulation from politics, Federal employees would not voluntarily contribute their long-term retirement savings to the TSP. Because of that commitment by Congress, the TSP has become "strictly business" and the most successful 401(k)-type plan in the nation. Without that commitment, I would never have taken the job of Executive Director, because I knew from over thirty years of government experience that the mandate in FERSA to act "solely in the interests of the participants and beneficiaries" of the TSP could never be achieved otherwise.

Special Interest Pressures. But the FERSA ink was barely dry before the special interests descended on me for special treatment. The housing lobby came first. Their arguments were much more powerful than the case now being made for an REIT fund. Fannie Mae, Freddie Mac, and various realtor and other housing interests demanded that the TSP invest in housing-related securities. They said that if I did not agree, they would get Congress to make me do it. I turned them down, and then your predecessor, the Civil Service Committee, turned them down. Now, after nearly twenty years of unprecedented success as the only Executive Branch agency statutorily insulated from political pressures, I regret to find that your subcommittee is giving serious consideration to legislation that would single out a portion of the real estate industry for special treatment – requiring the Board to establish a special fund to invest solely in real estate stock. Enactment of this legislation would inevitably lead to a procession of other special interest groups demanding equal treatment.

The Board has opposed the enactment of H.R. 1578 at this time, but promised to reconsider it after further study of other potential investments. I disagree. No study could possibly justify such a fundamental departure from the original intent of Congress to insulate the TSP from politics. This legislation should be defeated once and for all, thus sending a message to other lobbyists that they would be wasting their time trying to bend the TSP in their direction. Also, from a management standpoint, it would be a recipe for failure to require the Board to do something it obviously is not prepared to do and does not want to do.

Participant Rights. Congress can of course change its mind and enact H.R. 1578. But where does that leave the participants and beneficiaries of the TSP? They committed their retirement savings after having been assured that the TSP would be insulated from politics. If the Congress now reneges on its commitment, will the participants be permitted to withdraw their funds without penalty? In any event, a public debate over the political and equity considerations of such a switch could be devastating for the TSP. Given the current public disgust with lobbyists and "business-as-usual" in Washington, this is hardly the time to politicize the only Federal agency that is not politicized. The Board fiduciaries should keep the TSP participants fully informed of the progress of H.R. 1578 in Congress and the fact that its enactment would raise serious questions about the independence of the Board and its insulation from politics.

Individual TSP participants might well say they would be happy to have more investment options, whatever they may be, including REITs. But Congress in its wisdom established in FERSA the Employee Thrift Advisory Council (ETAC) to speak for Federal employees. ETAC is made up of representatives of fifteen major unions and other Federal employee organizations that are highly sophisticated in the ways of Washington. ETAC opposes H.R 1578.

Some argue that REITs would be a good TSP investment because they have been profitable in the extraordinary real estate boom over the past few years. It clearly would be irresponsible to enact legislation on the basis of the latest market favorite – has Congress already forgotten the "dot-coms"? In fact, the "hot investment" now is gold, which has been selling recently at the highest prices in 25 years – in part because the market is expecting higher interest rates, the biggest killer of the real estate market. REITs might get a short-term boost from "bragging" that they were the only specific-industry investment available to TSP participants. But that boost would benefit existing owners of REITs, not TSP participants, who might actually suffer a loss as the market settles down.

Second-Guessing the Market. Since we obviously do not know more than the market, we should let the market determine the value of REITs and their weight in the broad stock market indexes. The TSP's S&P 500 and Wilshire 4500 funds already include REITs, and the TSP should continue to benefit from the market's judgment as to their relative merits. The genius of FERSA is that it avoids the problem of having the government making market judgments.

Yet the REIT proposal would require the FRTIB, as well as Congress, to make market judgments beyond the scope of the Board's present mission:

– How should the FRTIB present an REIT fund to the 3.5 million TSP participants, in keeping with its fiduciary requirement not to give investment advice, but to present in plain English all significant pros and cons of investing in REITs? Should the Board be expected to be fully responsive to the advice of the REIT industry, which has an obvious conflict of interest and would surely complain to Congress if it felt the Board were not being sufficiently positive in presenting its product? Should the Board be expected to pay whatever it takes to get the best advice from disinterested market experts?

– What if there should be an REIT scandal about improper accounting practices, tax evasion, misrepresentation, failure to disclose, etc. Should the Board keep participants informed of such developments? Should the Board's REIT fund stop taking contributions? Would legislation be necessary? Should the fund be restructured or eliminated?

– How should TSP participants be made aware of significant economic, structural, or administrative changes in the REIT market? Should the Board monitor such developments or rely on the services of outside experts?

– How should the Board make judgments as to the merits of the inevitable demands by other industry groups for equal treatment? How would Congress deal with such demands?

– How would Congress deal with demands for new TSP or restructured index funds for "socially desirable" or "environmentally friendly" investments, or demands to eliminate funds that include "bad" companies, or industries that have discriminatory personnel practices, that pollute, or that produce, say, tobacco, or other "offensive" products? These demands will be the inevitable consequences of creating an REIT fund.

– If the TSP is to be transformed into a Federal program agency that could reallocate a substantial portion of the TSP's $180 billion of investments, should such market judgments be made by the TSP, or by the Treasury Department, or by some other agency better equipped to deal with the political, economic, and financial market issues? Similarly, should the House Committee on Government Reform have total responsibility for such an expanded TSP, or should the new program, economic, and financial market issues be handled by other committees of Congress with the appropriate jurisdictions?

The FRTIB clearly does not have the resources to deal with the above questions or to manage outside experts. The Board fiduciaries cannot simply say, "This is what the market experts told us to do." Would Congress authorize substantial increases in the pay of Board staff, in line with the pay of the top career staff at the Federal Reserve Board or other Federal financial agencies? Should the Board contract with Wall Street and other experts at perhaps several times the salaries now authorized for Board staff? In any event, the Executive Director would have to be personally on top of these very political matters, to the detriment of his primary responsibilities for the efficient management of the Board and the TSP.

In summary, H.R. 1578 is a bill that would undermine TSP participants' confidence in the independence of the Board from political influence, while making it the brass ring for every special interest group in the Washington merry-go-round. The bill is opposed by the Board – which is required to act solely in the interest of TSP participants – and by the ETAC, the participants' statutory representatives. For the REIT lobby, however, H.R. 1578 is plainly the pot of gold at the end of the rainbow. I strongly oppose it.

I request that this statement be included in the Hearing record.

STATEMENT OF MICHAEL S. MILES
PRINCIPAL ADVISOR, TURNKEY FINANCIAL SERVICES

Before the

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON FEDERAL WORKFORCE AND AGAENCY ORGANIZATION

April 26, 2006

I am an independent Certified Financial Planner® licensee, Registered Employee Benefits Consultant and Registered Investment Adviser who specializes in retirement planning for federal employees and annuitants. I am compensated for the investment advice I provide to clients by fees alone and I have no conflict with the interests of federal Thrift Savings Plan (TSP) participants regarding investment selection, strategy or management. I hold a Bachelor of Science degree from Virginia Tech and a Master of Business Administration from George Mason University. I have provided investment research analysis and advice to federal workforce clients on a daily basis for approximately 10 years. I provide financial planning benefits to members of the Senior Executives Association, write a regular column on TSP investing in the Federal Times newspaper and respond to questions concerning investment strategy and other financial matters submitted through the Ask the Experts forum at FederalTimes.com. I have devoted many thousands of hours to the practice and study of investment strategy and management during my professional career and have been engaged to provide educational seminars for federal employees and annuitants on numerous occasions.

Executive summary

The proposal currently pending to add a Real Estate Investment Trust (REIT) index fund alternative to the TSP is a misguided effort that is unlikely to substantially further the interests of TSP participants, and should be abandoned in favor of more productive efforts. Further, the proposal, if implemented, will likely add unneeded complexity, cost and risk to the plan, which will ultimately threaten the interests of participants.

The rationale being provided for the proposal is based primarily on rhetoric provided by promoters of REIT investment, including the National Association of Real Estate Investment Trusts, REIT producers, brokers and others with financial interests in the promotion of real estate investment.

The potential diversification benefits to TSP account holders has been overstated, the expectations for returns inflated and the benchmark for quality in plan design misidentified.

The timing of this proposal could hardly be more suspect. It is no coincidence that REIT investment is being heavily promoted on the heels of a period historically strong performance, and that REITS were virtually unknown to the investing public ten years ago before they started their upward surge. This scenario looks strikingly similar to that of technology stocks in the late 1990s, when investors were encouraged to continue buying far beyond the point of reason.

This proposal should be rejected and the fiduciaries who manage the TSP should be allowed to focus their efforts on more productive improvements to the plan, improvements that will be more likely to help participants to realize an increased standard of living in retirement.

Background

As an independent, practicing financial planner with a fiduciary obligation to my clients, most of whom are participants in or beneficiaries of the TSP, I would like to comment on the pending proposal to modify the plan by adding a REIT index fund to the available investment options currently offered to plan participants.

I first learned of this proposal through media coverage in the Spring of 2005 and was immediately concerned that it might not be in the best interests of my clients and other TSP participants. Several years earlier, in 1999, and then again in 2001, I had thoroughly researched and analyzed the idea of including REITs as a separate investment asset class in the asset allocation models I use in my practice. In both instances I had concluded that, while there might be some long-term investment performance benefits, these benefits, were likely to be marginal and not worth the added complexity and cost they would bring to my clients. Subsequent visits to the issue have confirmed this finding.

It is important to note that I do not sell investment securities or receive compensation for my investment advice from any source other than my clients. I accept responsibility as a fiduciary in my client engagements and offer my advice without hidden agenda or conflict with their interests. In short, I have no reason to favor or oppose the proposal other than my assessment of its value to plan participants. In furthering my clients' interests, I must often weigh the potential benefits of a tactic or strategy against its costs. There are simply too many options to consider using them all, or even a modest fraction of what is available. My decision to forego the use of a separate asset class was the result of such comparison. Sensitivity analysis using reasonable estimates of the risk and return characteristics of REITs, demonstrated that the potential benefits of adding them as a separate asset class did not justify the costs.

My research and analysis, which has relied primarily on mean-variance optimization and Monte Carlo simulation, as well as practical thinking, has led me to use asset allocation models for my clients that rely on seven equity asset sub-classes and five fixed income asset sub-classes arranged into seven model portfolios. These model portfolios, or asset allocations, span a range of investment risk from conservative to aggressive and have been designed to produce the maximum expected rate of return reasonably possible at

each risk level. I, and my clients, have repeatedly reviewed and scrutinized these models over the years and I am confident that they are efficient by any reasonable standard – meaning that they produce relatively high levels of expected risk-adjusted returns, after expenses and taxes.

I was quite pleased to learn that the S and I funds would be added to the TSP, because at that point, my model portfolios could be closely replicated in the TSP and the TSP would offer everything that an investor needed to implement an effective, even world-class, retirement investment program. I am on record, and was so before I learned of the REIT proposal, with my opinion that the TSP is the best employer-sponsored retirement plan of its type (self-directed, defined contribution plan) in the country.

The TSP's low costs, simplicity, market coverage and efficient design enable participants to put together portfolios that produce expected risk-adjusted returns superior to those available from other similar plans available to employees in U.S. Repeated analysis, both theoretical and in real world planning situations, has proven that the investment tools available in the TSP are sufficient to produce nearly optimal expected performance. Any shortcomings are not only insignificant, but are dominated by performance factors not related to a lack of investment options.

Factors stemming from participant behavior, including participation and contribution rates, asset allocation decisions, loan utilization and withdrawal size and timing figure much more prominently than the availability of additional investment alternatives in determining the benefit derived from TSP participation. I generally define "benefit" as it applies to TSP participation, as an account's ability to ultimately support a stream of withdrawals producing after-tax retirement income for its owner. In practice, things like rates of return, diversification and risk are only important to participants to the extent that they help to determine the lifestyle the participant will experience in retirement. Most participants, in my experience, are seeking to maximize the stream of regular withdrawals that can be derived from their retirement savings, without incurring an unacceptable risk of failure. It is with this goal in mind that I offer the following comments.

I am aware of a number of assertions that have been presented by the sponsors of the REIT fund proposal, and by outside observers, including some plan participants, in support of the proposal. Some of these assertions are reasonable and relevant, and some are, in my opinion, either misguided or misleading. This rationale in favor of the proposal seems to fall into three categories:

1. A REIT fund will enable participants to improve portfolio diversification
2. A REIT fund will enable participants to improve investment returns
3. Other large employers offer a REIT fund, and so should the TSP

I will address each of these assertions in turn:

Diversification

A REIT fund will enable participants to improve portfolio diversification, but it will not ensure this result. In fact, if misused, adding a REIT fund to the mix will actually increase portfolio concentration and, correspondingly, the variability of real returns. Enabling participants to invest their funds in any subset of a broader market carries with it the real risk of misuse or abuse. Singling out real estate is no different than choosing to create an internet, precious metals, healthcare or other industry fund. The markets can be increasingly subdivided into smaller and smaller entities until the level of individual securities – stocks or bonds, for example – is reached. Suggesting that dividing the existing market-based funds into smaller components will lead to improved diversification ignores the counter-productive, speculative behavior patterns so frequently exhibited by amateur investors (and many professionals). These patterns of behavior include "chasing" returns, or over-concentrating investments in securities that have performed well recently – a strategy that reduces diversification. If history is an indicator, investors are likely to be the victims, rather than the beneficiaries, of increased portfolio concentration if a REIT fund is added.

Further, while REIT performance is not always highly correlated with that of certain other TSP funds, it is more strongly correlated with others. I am concerned that investors may, based on some of the statements being made in the media, overestimate the diversification benefits offered by a REIT allocation in an otherwise well-diversified TSP portfolio.

One of the problems with estimating diversification benefits is that the estimates depend heavily on the time periods considered. It is generally true that more reliable estimates are derived from, and applied to, longer time periods. Much of what I have seen written about REIT performance is based on data for fewer than the thirty most recent years. I am very uncomfortable using so little data, particularly when subject to strong selection bias, in formulating my expectations for future behavior.

Using the most reliable long-term data available indicates that an index representing all REITS will be modestly correlated with growth stocks, but fairly highly correlated with value stocks, particularly with small- and mid- cap value stocks like those represented by the S Fund. In fact, the G and F Funds are less correlated with the C, S and I funds, and offer better portfolio risk reduction potential than would a broad REIT index fund. TSP investors seeking risk mitigation already have superior tools at their disposal in the existing five funds.

Returns

Adding a REIT fund, if used by investors, will only reduce expected returns for all but the most conservative investors. Based on my experiences with clients and with those who read my column in the Federal Times and choose to respond, I feel safe in saying that the most enticing aspect of the REIT proposal, and probably the only reason that it is being fielded and seriously considered, is the assertion or belief that such a fund will

offer superior returns to investors, compared to the existing five funds. This is particularly troubling to me, since it is evidence of one of the most pervasive misunderstandings about investment returns. In spite of the fact that every investment advertisement and prospectus that discusses returns must carry a disclaimer that clearly states that past performance is no guarantee of future results, promoters regularly encourage investors to act based on past performance – usually recent past performance.

What matters most to most TSP participants is what will happen to their accounts over the coming twenty, thirty, forty years, or more, not what happened over the last five, or the coming five years. At least, this is true for anyone who should be considering a risky investment.

Consider if you will, five people sitting in a row. Each person is flipping a fair coin – fair in the sense that each flip has an equal chance of coming up heads or tails. You watch and record the results as each person flips their coin ten times. In reviewing the results, so far, you notice that one person – flipper number three – has flipped seven heads in a row. Now, you learn that each person will flip their coin 990 more times. What do you expect from each flipper? The fact is that the more times the coins are flipped, the more likely it is that the number of heads and tails flipped will be equal. This is the law of large numbers. Larger samples from a population will tend to reflect the true nature of the population than will smaller samples. In other words, if you play the game long enough, the odds will catch up with you.

I've seen assertions concerning the REIT proposal that investors should expect rates of return superior to those for traditional corporate stocks – as high as 20.7% per year, on average. This is securities salesmanship at its worst and would be considered a violation of ethics and professional conduct standards if used as part of an actual investment sales presentation. Even mentioning the three, five or ten year track record for REITs in this context is patently misleading to long-term investors.

As discussed above, smaller samples often misrepresent the true nature of things, and this case is no exception. In this case, the fact that REIT returns have been so strong over the past five to ten years renders even the twenty or thirty year historical data suspect at best, useless at worst. Think back to what the latter half of the 1990s did to stock return historical data. The bubble in stocks skewed even fairly long term data upward dramatically. Investors (and more likely investment sellers) too frequently set expectations for future performance based on five, ten or twenty year data that were inflated by the most recent anomalous behavior of the markets. Once the bubble burst, however, the end-point of the historical growth curve was lowered just as dramatically as it had risen and the resulting historical performance deflated in turn. What's important to know about this phenomenon is that its effects are reduced as the amount of historical data increase. A short-term bubble will barely affect a one hundred year average rate of return.

Looking at real estate returns back to the late 1920s or early 1930s produces an annual compound growth rate of closer to 8% or 9% per year[1]. This is significantly lower than

the corresponding long-term rates of return for the asset classes represented by the C, S and I Funds. To the extent that an investor replaces shares of these funds with shares of a REIT fund, the expected return of their portfolio will be reduced.

Competitive Position

Adding a REIT fund will weaken the quality of the TSP compared to its private sector peers. The quality of a retirement savings plan is not measured by the number of investment choices it offers. In my experience, the opposite is true. Most private sector plans I have encountered offer far more choice than their participants need or can manage. The fund choices are often redundant, confusing and expensive, and lead investors to mismanage their accounts by failing to effectively diversify their portfolios. It is not uncommon to find a private sector 401k participant invested in ten or more funds, while unwittingly investing in only two or three asset classes among them. Owning five, fifty or five hundred large cap stock funds does produce a well-diversified portfolio.

In addition the costs borne by participants in private sector plans are always, in my experience, higher than those borne by TSP participants. This is important because cost is the primary determiner of expected relative investment return. All other things being equal, of two similar funds with similar objectives, the fund with the lowest cost will have the higher expected rate of return. This is a result of the law of large numbers, which, in this case, dictates that the longer an investment is exposed to a given market, the closer its return will be to the true return for that market. So, both funds have the same gross expected return – that of the market in which they are invested. But, the investor will only receive the gross return less the expenses assessed by the fund, giving the advantage to the lower cost fund. Since the TSP assesses lower expenses than any of its peers, it provides its participants with superior expected returns. The TSP's five current funds offer market coverage that is as complete, if not more complete, than the majority of its private sector peers. Adding additional funds will bring little, if any real benefit to participants, and doing so will likely increase costs, confusion and misuse to the detriment of participant interests.

Conclusions

The proposal to add a REIT index fund alternative to the TSP is based, in large part, on misunderstood or misleading information. The proposal is unlikely to significantly improve the benefits derived by TSP participants and threatens to seriously undermine their interests.

In spite of the rhetoric supporting the proposal, its potential diversification benefits are marginal, at best, and in practice may be non-existent for the vast majority of participants. While REITS have offered attractive returns during recent history, the most reliable estimates of future REIT performance, those based on the longest relevant data sets available, suggest that investors should expect lower returns from REITS than from

the C, F or I funds in the future. The TSP, in its current form, is superior to its private sector counterparts. Seeking to emulate these plans will only degrade the quality of the plan at the expense of its participants. If anything, the TSP should be held out as a model to which private sector plans should aspire. The quality of a retirement savings plan lies not in how it looks, but in what it does for participants – producing income streams in retirement.

Far more critical to serving the interests of TSP participants than the addition of a REIT fund is their behavior. I am reasonably certain that the addition of a new fund to the TSP will have no noticeable effect on the lifestyle of my clients in retirement, but their behavior will. The data covering TSP participation, and particularly account management, indicates that there is much room for improvement in the way eligible employees use the plan. More employees could participate. More money could be contributed. Accounts could be far better managed. I work with some of the most highly educated, accomplished and paid employees in the federal government, and I can honestly say that few, if any of them, are capable of, or willing and ready to effectively manage their TSP accounts.

Additional participant education and resources, an opt-out feature, expanded post-retirement withdrawal flexibility, or other modifications designed to positively influence participant behavior would produce greater benefit to participants than the addition of any new fund. The primary objective of any prudent investment manager – in this case any TSP investor – is to avoid catastrophic mistakes. The TSP's simplicity and efficient design eliminate much of this risk. Education and carefully designed features and rules can eliminate the rest. Adding a REIT fund, along with its unnecessary complexity, cost and increased opportunity to speculate will only produce additional risk, and ultimately hurt the interests of participants.

It is impossible for me to avoid comparison between the real estate markets during the past five years and the stock markets during the last five years of the 1990s. In 1998 and 1999, my clients' inquiries about getting into tech stocks before they missed the boat increased steadily to the point of being intolerable. Many investors started to feel guilty or embarrassed for being cautious. They were being bombarded by advertising messages encouraging them to jump on the band wagon. Experts on every corner justified the situation and said or did anything to convince investors that the party could go on forever. Opportunists came out of the woodwork, using examples of the recent past performance to sell investments with the promise of continuing future results. In the end, many of these opportunists were finding the proverbial "suckers" who would buy their stocks, or the stocks of their clients, at the top of the market and pay them their profits. Many of those same buyers later again made a decision based on recent history and sold those same shares at a loss after two or three years of negative returns. This pattern of buying after prices have risen and selling after they've fallen, buying high and selling low, is all too common among amateur investors and is often driven by the efforts of investment promoters. On behalf of TSP participants, I urge you reject this proposal and allow those with the best interests of the plan investors foremost in mind, the TSP's directors and managers to focus on more productive efforts.

[1] A Perspective on Long-Term Real Estate Returns: United States, Brandes Investment Partners, April 2004

Mr. DAVIS OF ILLINOIS. Given the scope of the hearing and the markup to follow, the key questions that need to be addressed are: Why REITs? And why now? Why isn't the subcommittee considering emerging market bonds or Treasury inflated protected securities or emerging market stocks? And why is the subcommittee moving forward before a comprehensive study of the universe of options can be completed? A study of investment choices will include an examination of the costs to participants, costs to the TSP, the scale at which the TSP would be able to enter the market without paying a premium, participant demand, overlapping funds, and whether or not any of those choices complement the existing investment options. This is municipality information, not only for us but for the Board and ETAC to know and understand, as we make decisions that will impact Federal employees' retirement savings.

I am also concerned about a pattern of investment behavior known as "chasing returns." I understand that this occurs when individuals over-concentrate investments in securities that perform well just prior to their investing in them. These investors run the risk of purchasing stocks that may be overvalued and are due for a correction. It is important to understand how chasing returns fits into the investment equation for Federal employees.

Experts estimate that retirees will need about 70 percent of their pre-retirement income, 90 percent or more for lower-income earners, to maintain their pre-retirement standard of living. That makes the consideration of a fund a very serious matter. One only has to look at the example of Enron, whose employees were allowed and encouraged by company executives to invest in Enron stock, to see what can happen when retirement programs are not administered solely in the interests of plan participants.

The TSP has an exemplary record. Let's continue that tradition. I look forward to hearing from today's witnesses, and I still think, Mr. Chairman, that we need to have all of the information that we can garner before making a final decision.

Again, I thank you for holding this hearing and yield back the balance of my time.

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

STATEMENT OF THE HONORABLE DANNY K. DAVIS
AT THE SUBCOMMITTEE ON FEDERAL WORKFORCE
AND AGENCY ORGANIZATION
HEARING ON

REAL ESTATE INVESTMENT TRUSTS (REITS): CONSIDERING
THE VIEWS AND ADVISORY ROLE OF THE EMPLOYEE THRIFT ADVISORY COUNCIL

April 26, 2006

Chairman Porter, thank for agreeing to hold this second hearing on the possible addition of a real estate investment (REIT) fund to the Thrift Savings Plan (TSP). As you know, last month, the Democratic members of the Subcommittee requested that such a hearing be held to discuss the merits of adding a REIT fund to the TSP and to hear the views of the Employee Thrift Advisory Council (ETAC). While I am pleased that this hearing is being held, I am very disappointed that only one of our witnesses, ETAC Chairman Jim Sauber, was invited to testify and that the scope of the hearing seems to center more on ETAC and the Thrift Board's decision-making process, rather than on why ETAC took the extraordinary step of passing a resolution in opposition to H.R. 1578, the "Real Estate Investment Thrift Savings Act."

To ensure that the members of the Thrift Board remain aware of the interests and concerns of the Thrift Plan participants and beneficiaries, ETAC was created in the TSP's authorizing legislation. ETAC represents over 2.6 million federal employees and retirees, and several ETAC representatives have served on ETAC since the TSP's inception in 1986.

When a bill is *opposed* by the people it is supposed to benefit, this Subcommittee has an obligation to research the issue further. Therefore, to gain a more comprehensive understanding of this issue, I request that the written statements of Terrence Duffy, Chairman of the Board of the Chicago Mercantile and House nominee to the TSP Board; Frank Cavanaugh, the first Executive Director and CEO of the Board; and Mike Miles, an independent Certified Financial Planner licensee and registered Employee Benefits Consultant be submitted for the record.

Given the scope of the hearing and the markup to follow, the key questions that need to be addressed now are: **"Why REITs?" and "Why Now?"** Why isn't the Subcommittee considering Emerging Market Bonds or Treasury Inflated Protected Securities or Emerging Market Stocks? And why is the Subcommittee moving forward before a comprehensive study of the universe of options can be completed? A study of investment choices will include an examination of the costs to participants, costs to the TSP, the scale at which the TSP would be able to enter the market without paying a premium, participant demand, overlapping funds, and whether or not any of those choices complement the existing investment options. This is important information, for not only us, but for the Board and ETAC to know and understand, as we make decisions that will impact federal employees' retirement savings.

I am also concerned about a pattern of investor behavior known as "chasing returns." I understand that this occurs when individuals over-concentrate investments in securities that perform well just prior to their investing in them. These investors run the risk of purchasing stocks that may be overvalued and are due for a correction. It is important to understand how "chasing returns" fits in to the investment equation for federal employees.

Experts estimate that retirees will need about 70% of their pre-retirement income – 90% or more for lower income earners – to maintain their pre-retirement standard of living. That makes the consideration of a fund a very serious matter. One only has to look at the example of Enron, whose employees were allowed and encouraged by company executives to invest in Enron stock, to see what can happen when retirement programs are not administered solely in the interests of plan participants.

The TSP has an exemplary record, let's continue that tradition. I look forward to hearing from today's witnesses.

Thank you.

Mr. PORTER. Thank you, Mr. Davis.

Congressman Marchant.

Mr. MARCHANT. No opening.

Mr. PORTER. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman. I thank both you and the ranking member, Mr. Davis, for your opening statements. I want to thank the witnesses for being here today, and you, Mr. Chairman, for having this hearing.

As you mentioned, we have had a series of hearings on this very important issue, and I am looking forward to the testimony of the witnesses today.

As the chairman said, a large number of Members of Congress have cosponsored this bill. People want to find a way to provide Federal employees with the kind of choices that many of the major companies in the private sector are making. The question does arise: If IBM has a REIT option, if other major employers in the private sector have these kind of options, which by all analyses I think has performed well recently, why should we deny that kind of opportunity to Federal employees? So that is the framework from which many of us approach this issue.

And I have to say, in the process of putting together this bill, our office approached many of the members of ETAC, some of the major ones, and asked them for their input. And the input we got back—and I will just mention one. AFGE, a major member of the Advisory Council, we said, "What do you think of this bill?" The response we got back was, "We are not going to oppose it. In fact, the ETAC is meeting. We are going to learn more about it and see if we can support it."

So a lot has obviously happened since then, but I think it is important for everybody involved in this process to understand that people involved in putting together this legislation reached out and tried to solicit the views of different players here. I represent lots of Federal employees. It seems to me that we need to make sure they have the same options that are available to many people in the private sector.

That having been said, I think that it is important to have this hearing given the fact that ETAC made the recommendation they did. I think it important for us to learn more about what factors they considered in reaching that opinion, and I look forward to the testimony.

So thank you, Mr. Chairman.

Mr. PORTER. Thank you, Congressman.

Congressman McHenry.

Mr. MCHENRY. Thank you, Chairman Porter. Thank you so much for offering this legislation. I am proud to be a cosponsor of it. And thank you, Mr. Van Hollen, for your leadership on this legislation as well.

I look forward to hearing your testimony today because just following this legislation, it is pretty perplexing that a Board created by Congress then opposes Congress acting on the program that it was created to have oversight over. It is a little bit ironic that a creation of Congress is biting Congress. And I would like to hear that from our second panel on why they deem that appropriate.

I look forward to your testimony on the reason for your decision, the reason for your approach on this, and the reason why timeliness has not been of the essence of what you are trying to achieve. We would like to have a reasonable response in a reasonable amount of time, and I think this committee hearing is important for those purposes.

So thank you again, Mr. Chairman.

Mr. PORTER. Thank you, Congressman.

Congresswoman Holmes Norton, do you have an opening statement?

Ms. NORTON. Thank you very much, Mr. Chairman.

Mr. Chairman, I am almost missing a markup at the Homeland Security Committee. I wanted to stay to say a few——

Chairman TOM DAVIS. Would the gentlelady yield just quickly? They are voting final passage now. They are holding the vote open at Homeland Security.

Ms. NORTON. Yes, well, since I am going to get voted down, let me at least say these remarks. My good friend, the chairman of the full committee, has been there, cast his vote the wrong way, so he is prepared to stay here. [Laughter.]

I have worked closely with the real estate industry. Indeed, the District of Columbia is a real estate town, so it comes to the table with a fair amount of credibility with me.

I also have a unique bill that heavily involves the real estate industry. I put money in their pocket, both in the commercial sector where real estate is one of the few big industries in town, and, of course, my unique bill involving homebuyers.

I, of course, have attended our subcommittee hearings, and they have been informative as far as they could go. Mr. Chairman, I have to say, I have to give the Republican majority some credit for taking a fully bipartisan support and trying their very best to tear it up. I mean, you couldn't have it better. You have the leaders, the top leaders on my side, literally from the top of my side, and your side on the bill, and yet there is a problem that is very unfortunate that has come forward.

Nobody was more outspoken in favor of REITs on the committee than I was, kept pressing the Board—I was very disappointed in the Board. I found their answers mealy mouthed. We finally said, OK, tell you what, we are going to find out what the real deal is, and we asked for a study. It is pending.

We even, some of us, were concerned that the Board might be stalling because we wanted the study to be done more quickly. I am told that may not be the case. Some have come forward with some dates. I am not sure about that. But one thing I did not expect was that this great interest—interest that came out of literally the probing of our subcommittee, in which we literally brought out in great detail what the great advantage of REITs would or might be, would dissolve into what we are now seeing. I just cannot believe that for the first time we see, of all things, of all bodies, the TSP maligned as being simply part of the political game vis-a-vis the Congress—something that, by the way, is very dangerous. Very, very dangerous. We are dealing here with one of the most conservative funds, one of the largest funds in the marketplace.

So I do not like headlines like this that I regard as absolutely needless and that were completely unavoidable arriving very likely at the position that has been sought. I do not like headlines that say, "Playing politics with your TSP." I do not want Wall Street to hear that and see that. And I do not want our employees to see it or hear it. And I do not like reading articles that say, "Playing politics with your TSP." I do not like reading articles—and I will not even quote the worst of this—that say, among other things, most of those contributions ranging from $1,000 to $7,500 and averaging $3,300 per lawmaker were made within a month or two of the lawmakers' signing onto a bill, the records show.

Well, you know what? I did not sign onto the bill. I wanted to wait until the hearing and until the study, so I did not get any of that money, and that is not why I am bringing this up. I am a member of the TSP, and I——

Mr. PORTER. If the Congresswoman would yield for a moment?

Ms. NORTON. I am going to finish, Mr. Chairman. You did not stop anybody else. And I think this needs to be brought out. I think that it is a darn shame to take what has been a process that had no political overtones and look like we are rushing to judgment because of politics. I do not believe that people who signed onto this bill thought any differently from the way I thought when everything I said at the meeting indicated that I thought that this might very well be a good idea. But here we have a study that is going to be coming in in a few months, and yet we are told that the sky will fall—what is falling is the TSP—the sky will fall unless somehow this is done right away, that we do not need to know about the cost to participants, the cost to the TSP. The whole study will be moot, and I do not see why in the world, even on a committee like this, Mr. Chairman, a subcommittee that you have run in a bipartisan way, where you have virtually every member of this subcommittee on the record for you, you would allow this to devolve into this. And that is what is happening here, and it is going to hurt the TSP and it is going to hurt the relationships we have had with you. And I want the record to show why I am concerned about this process and why I am particularly concerned that no matter how hard we try, this Republican majority is determined to separate us, whether it is Democrats from Republicans or whether it is employees from Members of Congress.

And I thank you for the time, Mr. Chairman.

Mr. PORTER. Thank you, Congresswoman. If I may comment, I think we agree. It is irresponsible—but let me take it a step further. It is irresponsible of a media outlet to report a story without the courtesy of having an interview with the chairman of the committee. It is irresponsible, this article is irresponsible. It is not true. It is inaccurate. And I agree with you. It is a shame that certain members have played politics with this Board. And I think it is a discredit to every Federal employee, it is a discredit to this Congress, when politics are being played exactly as you are saying by the Board of TSP. It is a shame on TSP. And I am disappointed that one news outlet can choose to be irresponsible and not have the courtesy of interviewing the chairman of this committee. This is absolutely false. And I appreciate your comments, and I understand what you are saying. Based upon reading the article, that is

why it is irresponsible of this newspaper to print this article, and I am glad you brought it up. Thank you.

Mr. Davis.

Chairman TOM DAVIS. Well, it is irresponsible. In fact, as far as the total amounts of money that my PAC gave to you, Mr. Porter, they are attributing somehow to some of these other interest groups, which is absurd. The numbers do not even add up.

I guess my surprise here is that a group that is supposed to be looking out for Federal employees has cost Federal employees literally millions of dollars. If this option had been available a year ago, looking at the growth in REITs, Federal employees would have been able in many cases to get a greater return on their investment by having an option that you have denied them.

In good faith, over a year ago they came before this Board and said they were going to do a study, and now it appears that the study results will come out and they are going to run the clock out on us before this Congress is over, hopefully to kick it over, and I suppose next Congress they will do the same thing. It is irresponsible.

The fastest-growing part of my own personal portfolio has been the real estate side. I would like other Federal employees, the 54,000 Federal employees in my district, to have the same option. This is not a mandate. This just gives Federal employees an option to do that, and it is the height of arrogance to think that somehow Federal employees are not intelligent enough to make the right investment decisions so you want to deny them this opportunity because they might pick it. And that is the rhetoric that we have heard out of this group, which has been so irresponsible in some of the other things that they have undertaken, such as the computer system and everything else as you go back.

Mr. Chairman, as you note in your opening statement, the percentage of private companies offering five or less options to their employees has dropped from 7 percent to 1 percent over the last 4 years, and yet this group insists on keeping it at 5 percent and running out the clock, offering one of the largest plans in the country fewer options, when the trend everywhere else—I don't know what they know that we don't know, but I look forward to their testimony at this point, and to just tell you I don't think this committee can wait for this unelected body to sit here and try to run the clock out.

Thank you.

[The prepared statement of Chairman Tom Davis follows:]

TOM DAVIS, VIRGINIA
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Opening Statement
of Government Reform Committee Chairman Tom Davis

Hearing of the House Government Reform
Subcommittee on Federal Workforce and Agency Organization

"Adding a Real Estate Investment Trust (REIT) Index Option to the Thrift Savings Plan: Considering the Views and Advisory Role of the Employee Thrift Advisory Council (ETAC)"

April 26, 2006

I want to thank Chairman Porter for holding this hearing, and sponsoring this legislation to add an "R" fund, or real-estate option, to the federal Thrift Savings Plan. This legislation is all about options – giving more options for federal employees and retirees to make their own decisions about how to invest their hard-earned retirement dollars. Who doesn't want more choice? Who wouldn't want more options to diversify and protect their retirement nest egg?

When the TSP was created in 1986, Congress established three funds – a government securities fund, a bond fund, and a stock fund. It was a brand new program, and the thinking back then was limiting the number of funds would make the program more manageable. But as the TSP has proved to be a great success, and as technology has provided more options for participants to manage their portfolios, the TSP has grown. It was an act of Congress that added the two additional equity funds, the S and I funds, to the plan in 2001.

H.R. 1578 has 165 co-sponsors in the House, from both sides of the political aisle. Like me, and like Chairman Porter and like Congressman Chirs Van Hollen, they believe that federal employees, like their colleagues in the private sector and in other public pension funds, should have more options. If REITs are good enough for Californians participating in the California Public Employees' Retirement System, the nation's largest public pension fund with assets totaling over 200 billion dollars and a significant asset allocation in real estate investments, than they are good enough for Federal employees.

Let's be clear: No employee would be forced to invest a single dollar in this new fund if they chose not to. Given that the TSP today offers only five choices – versus an average of 18 for the nation's typical 401(k) plan – it is clear that Federal workers are far too limited in their

retirement choices. The concept of including real estate as a separate investment choice in a retirement plan is neither new nor untested. Traditional pension plans, as well as endowments and foundations, have included a separate allocation to commercial real estate in their investment portfolios for many years. Today, four of the largest nine private 401(k) plan sponsors now offer a distinct real estate option. In addition state employees in my home state of Virginia can select a REIT option in their defined contribution plan. A large portion of my investment portfolio is based on real estate investments and I want to provide the same opportunities for Federal employees.

The fiduciaries of these plans understand the independent research that shows individual retirement benefits can be enhanced when choices with long-term investment performance and diversification benefits are added to retirement plans. In the case of real estate, this occurs because the investment returns are appreciably different and have a lower correlation to the returns from other investments, such as stocks and bonds, thereby offering significant advantages in the ability of an employees to diversify their individual portfolios. It is my view that the dedicated men and women who diligently fulfill their daily roles on behalf of our nation should have access to the range of retirement savings choices currently available to employees of many leading private sector firms. Many of these employees make tremendous sacrifices to work for this country, and we are blessed that they do. When it comes to crafting their own retirement savings plan, they should be able to seize for themselves every opportunity that is available in the market place. And, that responsibility falls upon us in Congress to bring these opportunities to the federal employees in my district and throughout the country.

That is the purpose of H.R. 1578, and why I was an original cosponsor of the legislation. I believe it is important that we pursue every means possible to improve the Federal retirement system to meet the every-changing retirement needs of our Federal workers and our commitment to their general welfare. Adding a real estate option to the TSP is a good place to start to achieve this goal. If the past 30 years serve as any indication, the addition of a REIT Index Fund to the TSP will make Federal employees more financially secure.

I thank our witnesses for being here, and I look forward to the discussion.

# # # # #

Mr. PORTER. Thank you, Mr. Chairman. I would just like to add one additional comment that you started, regarding the article written by Tim Kauffman of the Federal Times, stating contributions received from other members of leadership, again, I think this is an insult to the whole Congress, and I appreciate you and the Congressman bringing it forward.

So, with that, I would like to move to some procedural matters. I ask unanimous consent that all Members have 5 legislative days to submit written statements and questions for the hearing record, answers to the written questions provided by the witnesses also be included in the record. Without objection, so ordered.

I ask unanimous consent that all exhibits, documents, and other materials referred to by Members and the witnesses may be included in the hearing record and that all Members be permitted to revise and extend their remarks. Without objection, it's so ordered.

Let's see here. There are a number of documents that we will be referring to through the course of the questioning. There are documents that will consist of correspondence relating to the subcommittee's interaction with the TSP Board. I ask unanimous consent that these documents be placed into the record. These documents are marked as exhibits 1 through 16. So, without objection, so ordered—correction, 1 through 20.

[The information referred to follow:]

TOM DAVIS, VIRGINIA,
CHAIRMAN

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July 21, 2004

Mr. Gary A. Amelio
Executive Director
Federal Retirement Thrift Investment Board
1250 H Street, N.W.
Washington, D.C. 20005

Re: Thrift Savings Plan Investment Options

Dear Mr. Amelio:

The Subcommittee on Civil Service and Agency Organization is currently reviewing the existing investment choices available to Thrift Savings Plan (TSP) participants. As part of our review, we would appreciate your counsel on a number of matters concerning whether legislation is appropriate to bring the TSP more in line with current practices in the private sector so as to improve plan participants' achievement of their retirement savings objectives.

The Subcommittee applauds the innovative steps you are pursuing in providing TSP participants with life cycle funds based on the existing five investment options. Studies have consistently shown that the most important factor in determining investment performance is asset allocation, and the subcommittee believes that life cycle funds are a creative and disciplined way to bring professional asset allocation to TSP participants.

In connection with its legislative responsibilities, the subcommittee wishes to obtain from you information needed to assess whether further enhancements to the TSP are warranted to provide greater diversification benefits to plan participants. A fundamentally important decision for the plan is the number of investment options that should be made available to TSP participants. Research shows that: 1) less than 2% of private-sector defined contribution (DC) plans have five or fewer options, similar to the TSP; 2) more than 80% of private-sector DC plans offer 10 or more options; and, 3) the average number of investment funds in private sector DC plans is 15.3. I will note that additional investment choices could be especially useful to the managers of the life cycle funds to create more diverse and potentially stronger portfolios. What number of investment choices do you believe the TSP should offer to optimize diversification benefits for its participants? Would increasing the number of options increase the strength of this benefit?

In determining which additional investment choices likely should be added to the TSP, the subcommittee seeks your advice as to which types of index funds would offer the best diversification

TSP

EXHIBIT 1

benefits to its participants. In particular, we are interested in the types of additional funds that offer investment options that are relatively non-correlated with the performance of the existing five TSP funds and have demonstrated track records of creating value for investors in a diversified investment portfolio.

More specifically, the Subcommittee requests your views on whether a real estate fund would provide diversification benefits not available through the existing five investment options. We understand that defined benefit plans for corporations and state governments have long allocated some amount of their total assets to either real estate directly or indirectly, through real estate securities, or both. Please explain why the TSP has chosen not to allocate a portion of its assets to real estate.

In addition, the Subcommittee has recently reviewed a study by Ibbotson Associates that compares the performance since 1988 of the indexes used by the existing five TSP options with the performance of a real estate investment trust (REIT) index. The Ibbotson study, which we understand you have been provided, concludes that including an allocation to real estate through REITs in addition to some of the other five TSP funds would have produced appreciably higher portfolio returns at every level of risk tolerance. Please provide us your analysis of the Ibbotson study and its conclusions.

As a result of the Ibbotson study as well as other information that has come to our attention, we specifically request your views on the feasibility of offering a REIT index fund to the investment menu of the TSP. Although we understand that REIT stocks do populate both the C and S funds, it appears, according to the Ibbotson study, that a plan participant would not obtain an effective allocation to real estate through REITs by investing only in the C and/or S Funds, while still maintaining a prudently diversified portfolio. Do you agree?

Should we conclude that a real estate allocation through REITs makes sense, please provide us with your views of whether a REIT index fund could be offered to TSP participants given the size and liquidity of the publicly traded REIT market. Specifically, please: 1) discuss whether the fund flows into a REIT index fund will be expected to be different than the actual fund flows to date into the S and I Funds; 2) compare the fund flows into the S and I Funds over the three years since they were introduced with the size of today's REIT market and its daily liquidity; and 3) explain whether you believe a REIT index option might function differently under the TSP than a REIT index option in a large private sector DC plan such as IBM's.

Finally, the Subcommittee appreciates the efforts of the Federal Retirement Thrift Investment Board over the years to provide suitable investment choices to participants at the lowest possible cost. Please provide us with any information pertaining to the investment fees associated with offering a REIT index fund to the TSP participants and how comparable such fees would be to fees of the existing TSP investment choices. We would be especially interested in the views of potential third party vendors as to the range of their investment fees for managing a potential REIT index option for the TSP.

We look forward to hearing from you in the near future.

Sincerely,

Jo Ann Davis
Chairwoman
Subcommittee on Civil Service
and Agency Organization

EXHIBIT 1

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INDEPENDENT

September 6, 2004

Mr. Steven A. Wechsler
President and CEO
National Association of Real Estate Investment Trusts
1875 Eye Street, NW, Suite 600
Washington, D.C. 20006-5413

Dear Mr. Wechsler:

I would like to follow up with you regarding your interest in adding a real estate investment trust (REIT) option to the Thrift Savings Plan (TSP).

On Tuesday, August 31, 2004, the staff of the Subcommittee on Civil Service and Agency Organization met with Mr. Gary Amelio, Executive Director of the Federal Retirement Thrift Investment Board (FRTIB), to discuss the possibility of adding REIT's to the TSP. Following both the meetings with Mr. Amelio, as well as with the National Association of Real Estate Investment Trusts on June 23, 2004, I would appreciate if you could provide the committee with additional information regarding a number of outstanding questions.

First, I am interested in your estimate of the administrative and management costs for a REIT in the TSP. As you know, the administrative and management costs of the TSP are currently seven (7) basis points. Is it possible to add a REIT option to the TSP having comparable costs? How many basis points would you anticipate?

Second, I would like you to provide further information regarding concerns about the liquidity of REIT's and how it would affect the daily operations of the TSP. Currently, all funds available to federal employees are accessible for daily transactions on the TSP website. It is my understanding that most REIT's cannot be bought and sold by an individual on a daily basis without fees or penalties, such as in IBM's plan, which restricts trading in REIT's to once per quarter. If this is so, how would you propose integrating REIT's into the TSP as an option for employees? How often would you expect that an employee would be allowed to conduct transactions without penalty?

Third, I am interested in how REIT's have operated in other daily valued direct contribution plans. Please provide information to the committee, if you are aware of any other such plans, highlighting how these plans have dealt with the liquidity concerns raised in the previous paragraph.

Fourth, I am interested in the performance of REIT's as compared to the performance of the five funds available in the TSP. The March 2003 Ibbotson Associates study on the TSP you

EXHIBIT 2

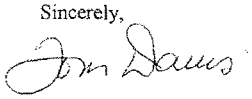
provided to the committee reports that the average annual total returns of the NAREIT Equity REIT Index were 12.8% from 1988-2003. Is this index representative of all REIT's in the stated time period? Did REIT's exist before 1988 and, if so, how did they perform as compared to the funds in the TSP?

Fifth, I am interested in the level of interest that Federal employees would have in a real estate option, considering their historically risk-averse tendencies. What would you anticipate to be the participation in such a fund as a percentage of the total money invested in the TSP? In other defined contribution plans, what is the average percentage of people who participate in a real estate investment trust?

Sixth, the view has been expressed that REIT's are not a separate asset class of investment, but rather an "industry" already represented in the broad portfolios of the C and S funds. How would you effectively differentiate REIT's as a distinct investment option for the TSP?

Please provide this information to the committee as soon as possible. I appreciate your willingness to work closely with this committee on matters of importance to the TSP, and look forward to hearing back from you soon.

Sincerely,



Tom Davis
Chairman
Committee on Government Reform

EXHIBIT 2

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November 22, 2004

Mr. Gary A. Amelio
Executive Director
Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, D.C. 20005-3952

Dear Mr. Amelio:

I am writing as a follow-up to our August 31, 2004, meeting regarding the addition of a real estate investment trust (REIT) fund to the options available in the Thrift Savings Plan (TSP). Your input has been instructive to the work of the subcommittee staff as we conduct a thorough examination of this issue.

As you recall, at the meeting you raised a number of issues regarding the propriety of adding a REIT fund to the TSP, including, but not limited to, costs, liquidity and complexity. Furthermore, you stated that information provided to you by representatives of the National Association of Real Estate Investment Trusts (NAREIT) did not satisfy your concerns in these areas.

To follow up on our meeting, Chairman Tom Davis sent a letter to NAREIT requesting that they address your specific concerns with a more detailed response to the committee. Both a copy of the letter and the response are attached.

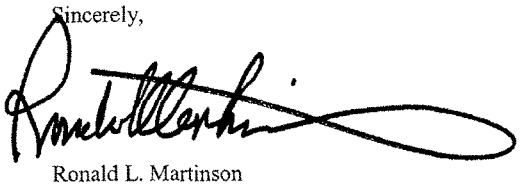
Although the subcommittee has no fixed viewpoint at this time, it appears that at least a reasonable case has been made to further explore whether REITs might fit within the TSP as an additional investment option for Federal employees. You yourself stated at our meeting that were you (in another arena perhaps) called upon to add an investment option to your menu, REITs would be the likely candidate. I would also add that while fees are an important component to any managed investment, the ultimate importance measure is net return on investment, and in this area REITs over an extended period of time have performed very well when compared with other investment instrumentalities.

With the introduction of the 109th Congress, the Committee on Government Reform will undergo reorganization and this subcommittee will receive a new chairman. In the interim we are examining a number of important issues and drafting

EXHIBIT 3

recommendations for possible legislation and oversight. Your input regarding this issue will be valuable to our deliberations. I thank you in advance and look forward to your reply. Should you have any questions about this letter, please feel free to call me at any time.

Sincerely,



Ronald L. Martinson
Staff Director
Subcommittee on Civil Service
and Agency Organization

EXHIBIT 3

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BERNARD SANDERS, VERMONT,
INDEPENDENT

January 5, 2005

Blake R. Grossman
Global Co-Chief Executive Officer
Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

Dear Mr. Grossman:

The Committee on Government Reform is currently reviewing the existing investment options available to Thrift Savings Plan (TSP) participants. As part of our review, we would appreciate your counsel on two specific issues associated with potential legislation to bring the TSP more in line with current practices in the private sector so as to increase the likelihood of plan participants achieving their retirement savings objectives.

In particular, the Committee would like to benefit from your experience in managing four of the five current TSP funds as well as large portfolios of real estate investment trust (REIT) index funds in the private sector. In connection with the possibility of adding a REIT index fund to the options available to TSP participants, we would like you to assist us in answering two questions.

First, would it be possible for a REIT index fund to be offered to TSP participants at the same or similar cost as the current four options you manage today for the TSP?

Second, based upon your knowledge of how the TSP is administered and your role as the investment manager of billions of dollars of funds in REIT index funds offered in defined contribution plans in the private sector, do you believe there is sufficient liquidity in the marketplace to offer a REIT index fund to TSP participants?

I appreciate your willingness to work closely with this Committee on matters of importance to the TSP, and I look forward to hearing back from you.

Sincerely,

Tom Davis

Tom Davis
Chairman
Committee on Government Reform

EXHIBIT 4

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

GARY A. AMELIO
Executive Director

January 18, 2005

Mr. Ronald L. Martinson
Staff Director
House Subcommittee on Civil Service
and Agency Organization
2157 Rayburn Building
Washington, D.C. 20515-6143

Dear Mr. Martinson:

This responds to your inquiry of November 22, 2004. Enclosed you will find the technical analysis prepared by the professional staff of the Federal Retirement Thrift Investment Board. As you will note, our analysis finds that the case by the National Association of Real Estate Investment Trusts for adding more REITs to the TSP is overstated.

Although I am and will be always interested in receiving new information, this exercise has not changed my view as we discussed when we met on August 31, 2004. When I came to the TSP it was clear to me that we already had what I call the "major food groups" of investment funds. Three are indexed equity funds; large capitalization, small and mid-capitalization, and international. The fourth is an index fund comprising investment grade bonds, and the fifth is a stable value fund invested in U.S. Treasury securities. The first two index funds include REIT security holdings in amounts which track their relative value in the broad markets.

Beginning this summer, the TSP will offer lifecycle portfolios. From an investment perspective, lifecycle funds are the only material gap and the next logical step in keeping the TSP consistent with the best plan designs in the industry.

With regard to further analysis by the Board, the professional staff will continue to examine potential investments (as it has done for the past 15 years) and report promising developments to the Executive Director and the members of the Board. These analyses will include REITs as well as other possible investments as discussed in the enclosed paper. Potential investments will be pursued based on compelling evidence and convincing analysis.

EXHIBIT 5

Mr. Ronald L. Martinson
Page Two

The statutory requirement that Board members develop investment policies which are suitable for long-term investments and provide low administrative expenses, as well as the fiduciary requirement that we act solely in the interest of participants and beneficiaries continue to motivate me and the Board in this regard. If we determine that a new investment would be appropriate, please be assured that we would indeed recommend Congressional action (as was done with the S and I Funds) or take administrative action (as we are doing with the Lifecycle funds).

Very Truly Yours,

Gary A. Amelio

Enclosure

EXHIBIT 5

White Paper Regarding Suggested Addition of a REIT Fund to TSP Investment Options

This paper is written to address TSP investment policy issues that are raised in the November 22, 2004, letter from Ronald L. Martinson, Staff Director, Subcommittee on Civil Service and Agency Organization. The professional staff of the Federal Retirement Thrift Investment Board does not recommend the addition of investment funds to the TSP at this time. The basis for this view is two-fold: First, we believe that consideration of additional funds should be more comprehensive than just one alternative, and that the case for adding a REIT fund, in particular, is far less compelling than the presentations that have been made to the committee; and, second, there are administrative constraints which must be weighed against the benefits of any additional investment options.

1. Investment Policy Considerations with Regard to REIT Funds

A. Staff Exceptions to NAREIT's Estimates of Added Investment Returns from Adding REITs to TSP Portfolios

The staff does not agree with conclusions drawn by Mr. Wechsler in NAREIT's October 7, 2004, letter to the committee encouraging the addition of a REIT fund to the TSP. We believe that the case for including REITs in the TSP is overstated. The mean-variance analysis (MVA) illustration from the Ibbotson study is exactly that, an "illustration". It was, in fact, provided with the caveat "This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results." Such an analysis is not a sound basis for investment policy, and the inferences drawn by NAREIT based on this illustration are flawed for the following reasons:

- *The portfolio optimizations in the Ibbotson illustration are based on unreasonable expectations.*

In order for investment policy (or asset allocation decisions) to be consistent with modern portfolio theory, that policy must be based on the expected returns, expected risk, and expected covariance/correlation of returns of the available investment assets. Simple extrapolation of historical data may not reflect reasonable expectations; historical returns are not necessarily predictive of future expected returns. This is the first error reflected in the usage of the Ibbotson illustration

EXHIBIT 5

as a basis for investment policy; for example, it is not reasonable to assume that international equity returns will underperform domestic equity, in the long run, by more than six percent or that domestic equity returns for large capitalization stocks will exceed returns for small capitalization stocks by more than one half of one percent only because they have done so during a particular period.[1]

- *The NAREIT Equity REIT Index is an inappropriate proxy for hypothetical REIT index fund returns.*

The NAREIT Equity REIT Index is an inappropriate proxy for hypothetical REIT index fund returns, because it is not practicable to invest in this index. The NAREIT Equity REIT Index is a total market index, and many of the constituents in this index are very thinly traded. Staff has been unable to identify any REIT index fund that replicates the NAREIT Equity REIT Index, and, as a result, it has likewise been impossible to measure the performance of such a fund.

Other more appropriate indexes (i.e., more investable indexes) might have been used to demonstrate how inclusion of a REIT fund would have impacted portfolio returns, including: the DJ Wilshire Real Estate Securities Index[2] (DJ Wilshire RESI), the Morgan Stanley REIT Index, and the DJ Wilshire REIT Index. The Morgan Stanley REIT Index and DJ Wilshire REIT Index were not constituted for the entire period 1988 through 2003; however, historical performance data for the DJ Wilshire RESI are available and would not have produced similar optimization results as those that were provided to the committee. In fact, optimization results using DJ Wilshire RESI total returns would not have produced portfolios with significant allocations to the DJ Wilshire RESI (the largest allocation would be 2.3%), and would only be included in the least risky portfolios (i.e., portfolios with a standard deviation less than 5.1%)[3]. Such portfolios

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[1] The portfolio optimization results presented in Mr. Wechsler's letter reflect average annual returns for 1988 through 2003 (i.e., REIT returns of 12.8%, and G, F, C, S, and I Fund returns calculated by NAREIT, of 6.8%, 8.3%, 13.9%, 13.3%, and 6.7%, respectively).

[2] The DJ Wilshire Real Estate Securities Index includes three real estate operating companies that are not included in the DJ Wilshire REIT Index and has been computed since January 1978; there were 90 constituents in the DJ Wilshire Real Estate Securities Index as of November 30, 2004.

[3] MVA Optimization Inputs: Geometric Mean Return (8.8%), Standard Deviation (14.4%), G/F/C/S/I Fund Correlation Coeff.s (-.12/.07/.41/.47/.28). Source: 1988-2003 DJ Wilshire RESI Total Returns calculated by Ibbotson Associates; G/F/C/S/I Fund returns calculated by the TSP.

EXHIBIT 5

would not have significantly increased TSP returns over the period.

- *The inferences drawn from the portfolio optimizations are made without regard for "common sense".*

Mr. Wechsler draws inferences from this MVA illustration that fail to stand up to even the most cursory "common sense" review. For example, Mr. Wechsler asserts:

> As clearly demonstrated in the March 2004 Ibbotson Associates analysis, adding a REIT index fund to a portfolio of G, F, and C Funds over the period 1988-2003 (the life of the TSP) would have increased average annual returns in optimal portfolios by up to 90 basis points ….

The 90 basis point increase cited by Mr. Wechsler is achieved (based on the Ibbotson illustration) by an asset allocation of approximately 60% C Fund and 40% REITs. It is true that, if a REIT index fund could have achieved the same investment result as the NAREIT Equity REIT index over the same period, such an allocation would have produced a 90 basis point greater return than any combination of investments not including REITs and having the same standard deviation of returns. However, it is also inconceivable that this allocation could have been perceived to be a risk optimized portfolio in January 1988. Nor do we believe that Mr. Wechsler (or any knowledgeable investment professional) would recommend a 40% allocation to REITS at this time.

B. Staff Viewpoint Regarding Additions to the TSP Investment Options, and the Suggested Addition of a REIT Index Fund

The staff believes that best practices with regard to development of investment policy require the consideration of all available options, rather than an ad hoc appraisal of individual fund recommendations. Further, we believe that the funds currently offered by the TSP are sufficient for the construction of risk-optimized portfolios appropriate for TSP participants. The TSP investment staff agrees that REITs are an appropriate proxy for direct real estate and that, at some levels of risk, there is potential for small improvements in return by adding optimal levels of real estate to a portfolio; however, improvement to portfolio returns are small, even before consideration of transactions costs and fees[4].

[4] The Agency has no specific fee information; however, if fees are similar to those of other TSP Funds, the likely impact on this analysis is small.

EXHIBIT 5

- *When consideration is given to the addition of new funds to the current TSP investment options, several options, in addition to REITs, should be analyzed.*

If new investment funds are to be offered by the TSP, consideration should be given to both the appropriateness and investability of any new type of investment, as well as consideration for how well that type of investment complements the current investment funds.

Several classes of assets are unrepresented by the current TSP investment options. Such asset classes include high-yield debt, inflation protected bonds (TIPS), commodities, and emerging market equity. Some TSP participants might also benefit from the ability to overweight their TSP portfolios toward growth stocks or toward value stocks (i.e., "tilt" their portfolios), which could be accommodated by offering growth and value index funds. All of these options should be considered in addition to REITs, in any evaluation of additional funds. Further, the policy and practical impact of offering "slices" of the markets at the same time we already offer the total market through the existing broad-based index funds established under the existing policy authorized by the Congress would require very careful consideration.

- *Allocations to Real Estate in Optimized Portfolios and Improvement of Return from Adding Optimal Levels of REITs to a Portfolio*

Actual allocations to real estate by defined benefit plans (i.e., allocations to real estate by professional investment managers with similar investment objectives and constraints) are less than the allocations suggested in the NAREIT letter. In *Pensions and Investments* 2004 Survey of Pension/Employee Benefit Plans, of 328 defined benefit plans with allocations to real estate, the median allocation was 5.0%. Only 23 respondents indicated allocations exceeding 10%.

Research suggests that these actual allocations to real estate have been less than optimal. In 2003, Barry Feldman, a research consultant at Ibbotson Associates, calculated optimization results with REITs both with and without a proxy for direct real estate[5]. Results were based on data from 1987 to 2001, and

[5] Feldman, Barry E. "Investment Policy for Securitized and Direct Real Estate." *The Journal of Portfolio Management*, Special Real Estate Issue (September 2003), pp. 112-121.

EXHIBIT 5

Feldman concluded that direct and securitized real estate investments are complementary investments, and that policy allocations should overweight real estate relative to its market capitalization. These results indicated optimal allocations for REITs alone at various levels of risk (standard deviation). At risk levels between 2% and 10%, the allocation to REITs varied from 6% to 17%; at a risk level of 12% the optimal portfolio had no allocation to real estate. The maximum REIT allocation of 17% occurred at the 8% risk level.

Dirk Brounen and Piet Eichholtz[6] examined the relationship between private property (direct real estate), property shares (securitized real estate), and common stock in the United States and the United Kingdom. Brounen and Eichholtz found increased similarity between private property and property shares and using mean-variance analysis concluded that optimal portfolio allocations to real estate, in both the United States and in the United Kingdom, were around 10%, if the maximum Sharpe ratio portfolio were used (i.e., for the portfolio that maximized return per unit of risk).

However, two points are worth making about the conclusions of these studies: 1) The optimized allocations fall far short of the 40% allocation to REITs used by Wechsler to achieve his results, and 2) The amount of additional return contributed by these optimized allocations is still modest.

Feldman's findings showed the calculated improvements to portfolio returns from adding REITs to a portfolio of S&P 500 Stock, Small Stock, MSCI EAFE, U.S. Long-Term Bonds, and 30 day T-Bills (very similar to the TSP fund menu). For the same levels of portfolio risk as shown above, improvements to portfolio return varied from 6 to 17 basis points (i.e., .06% to .17%). That is, individuals whose portfolio risk was between 2% and 10% could have improved their portfolio returns by up to .17%, by including an optimal allocation to REITs. While such modest increases in return might justify the addition of real estate in a defined benefit context, in a defined contribution plan like the TSP such potential return must be weighed against the effects of adding new funds on deleterious participant behaviors such as will be discussed later in this paper.

- *Though market liquidity is ample to support daily trading, the TSP believes there is significant likelihood that price*

[6] Brounen, D., and Eichholtz, P. "*Property, Common Stock, and Property Shares.*" *The Journal of Portfolio Management*, Special Real Estate Issue (September 2003), pp. 129-137.

EXHIBIT 5

impact from trading will increase transactions costs and affect performance.

Staff remains concerned that transactions costs, due to market liquidity, would reduce REIT fund returns. For example, the market value of the TSP's F Fund as of December 31, 2004, was approximately $10 billion, or approximately 7% of total assets. In 2004, daily F Fund transactions varied between redemptions of as much as $60 million and purchases of as much as $54 million. Even a modest allocation to REITs, like that to the TSP's F Fund, might reasonably be predicted to consume up to 5% of the recent daily trading volume of REITs, which is approximately $1 billion. Staff believes that, given TSP participant behaviors and current market liquidity, TSP transactions could incur transactions costs that would erode portfolio returns.

2. Administrative Constraints

At present, the Agency is focusing its efforts on improving participant/investor education (as required by Congress in P.L. 108-469), and developing lifecycle funds composed of the already existing TSP funds. The lifecycle funds were approved by the Board members based on a thorough analysis by the professional staff. These funds are targeted for those TSP investors who do not have the knowledge, interest, or time to better manage their TSP accounts. Staff's recommendation that the TSP implement a lifecycle fund option was based on our judgment that participant returns could be improved most by addressing deleterious investor behaviors that are apparent in some TSP participants.

- *Many TSP investors do not appear to make risk-optimized investment decisions.*

First, TSP participants tend to make poor use of the funds presently available to them, in terms of their asset allocations. Over 50% of TSP participants are invested in a "bullet" portfolio (i.e., 100% allocation to one fund), and approximately 19% are invested in a "bar-bell" portfolio (i.e., a portion of their account invested in the least risky G Fund, and the remainder invested in a risky asset). Overall utilization of the domestic and international equity funds is limited.

Second, many TSP participants are return-chasers. While some of these TSP participants reallocate their accounts too often, the more pervasive problem is that, even when their inter-fund transfers are infrequent, participants' investment decisions tend to reflect large realignments in their accounts

EXHIBIT 5

(i.e., participants move large amounts from one fund to another in hopes of picking the next big winner). This behavior is both harmful to participants (due to poor market timing decisions), and can result in increased transactions costs that are borne by all fund investors. Furthermore, to the extent that TSP participants tend to make large and infrequent interfund transfers, limiting the number of an individual's interfund transfers would have little effect on this behavior.

- *Lifecycle funds are a practicable solution.*

It is not practicable to educate all TSP participants to become skillful portfolio managers (or asset allocators); even knowledgeable participants must have the interest and time to manage their accounts effectively. It is essential for the financial welfare of TSP participants that the Agency address these problems to the extent possible through its program initiatives. The Agency believes that adding lifecycle funds will speak most effectively to these administrative concerns in the near term.

The staff also believes that lifecycle funds satisfy the statutory requirement for Board members to develop investment policies "which provide for prudent investments suitable for accumulating funds…" (5 U.S.C. §8475) by addressing deleterious investor behaviors that adversely affect such accumulations, including:

- TSP participants' tendency to chase returns,
- TSP participants' tendency to focus on each individual fund's expected return and/or risk instead of considering funds based on their contribution to portfolio risk and return, and
- The tendency by confused participants to pick only one fund, or to spread their accounts evenly over all options.

Introducing additional funds at this time would send a mixed message which potentially adds confusion, but certainly would diminish the impact of the clear message we seek to convey with the implementation of the lifecycle funds.

3. Conclusion

For these reasons, staff recommends against the addition of a REIT fund in the near term. In the longer term, the staff will continue to evaluate existing TSP funds and consider additions from the broad universe of available options; we will bal-

EXHIBIT 5

ance the possible benefits of additions to the plan against our concerns that too many offerings might complicate our efforts to educate participants or lead to investor behavior that is deleterious to participants' long-term financial security.

Therefore, staff believes that the most advantageous way to proceed would be to: 1) install the lifecycle fund options in the TSP, 2) evaluate the impact of the TSP's education efforts and the new funds on participant behavior, and 3) evaluate other potential funds/asset classes along with the existing offerings, until such time as we are prepared to recommend which, if any, funds Congress should consider for addition to the TSP. A broad and considered approach such as this is the way in which the TSP came to recommend, and then to implement, the S and the I Funds.

EXHIBIT 5

SUSAN M. COLLINS, MAINE, CHAIRMAN

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United States Senate

COMMITTEE ON
HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

July 5, 2005

The Honorable Andrew M. Saul
Chairman
Federal Retirement Thrift Investment Board
1250 H Street, N.W.
Washington, DC 20005

Dear Chairman Saul:

We understand that the Federal Retirement Thrift Investment Board (FRTIB) is undertaking a review of investment options for the Thrift Savings Plan (TSP). We commend you for this action. Accordingly, we request that the Board provide a written report containing the findings and recommendations of this review to the Committee by January 1, 2006.

The report will assist the Committee in its ongoing oversight and evaluation of the TSP. Therefore, we request the report cover all aspects of the FRTIB review, including, but not limited to, an examination of all appropriate investment choices and an analysis of whether the current fund options offer adequate diversification for participants, as well as the performance of the investment managers for the TSP.

We look forward to working closely with the Board to ensure that TSP participants receive the highest quality of service and benefits as we consider changes to the TSP. Thank you for your consideration of this request.

Sincerely,

Susan Collins

Susan M. Collins
Chairman

Joseph I. Lieberman
Ranking Member

George V. Voinovich
Chairman, OGM Subcommittee

Daniel K. Akaka
Ranking Member, OGM Subcommittee

EXHIBIT 6

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BERNARD SANDERS, VERMONT,
INDEPENDENT

July 6, 2005

The Honorable Andrew M. Saul
Chairman
Federal Retirement Thrift Investment Board
1250 H Street, N.W.
Washington, D.C. 20005

Dear Chairman Saul:

Your appearance before the House Subcommittee on the Federal Workforce and Agency Organization on April 19, 2005, regarding H.R. 1578, the "Real Estate Investment Thrift Savings Act," provided useful information for the Members.

Your testimony indicated that the Federal Retirement Thrift Investment Board valued the potential benefits REITs may provide for the Thrift Savings Plan's investment portfolio. However, you also requested that Congress not add any additional investment options to the TSP until the Board had first retained an independent professional investment consultant to analyze and determine—in a broad and comprehensive approach—whether new investment choices, including REITs, would benefit TSP participants. TSP Executive Director Gary Amelio made the following comment at the hearing:

> We did an analysis of REITs on a one-on-one basis, in other words, looking specifically at REITs directly in response to the Subcommittee's request. However, the fiduciaries have decided to now go beyond that, engage a professional investment consultant to look at the universe of investments, which would include REITs. We haven't eliminated it, we just want to look at everything in total, as I mentioned, rather than simply look at a stand alone, up or down vote on one fund. We want to look at everything."

We support this approach and request that the Board retain a professional investment consultant as soon as possible. We also request that the Board provide a written report containing the findings and recommendations of this investment consultant to us by January 1, 2006. As you are aware, under the Federal Employees Retirement System Act of 1986 (P.L. 99-335), which created the Thrift Savings Plan, only Congress has the authority to add funds to the TSP. Therefore, it is imperative that Congress obtain timely and objective information from the TSP Board so it can make responsible decisions. Please inform us of the independent investment consultant you plan to retain.

EXHIBIT 7

The written report should examine real estate investment trusts (REITs) as well as other possible appropriate investment choices including, but not limited to, the following options mentioned at the hearing: Treasury inflation-protected securities (TIPS), emerging market equities, growth and value indexes, commodities and high-yield debt. Please then identify a limited number of investment options demonstrating further diversification benefits to TSP participants owing to: (1) a low correlation of returns with the returns of existing TSP Funds; (2) a low volatility compared with volatilities of the existing funds; and/or (3) consistently competitive returns, net of expenses, over most reasonable retirement savings horizons.

As you know, H.R. 1578 was introduced to add a REIT index option to the TSP. We look forward to the completion of the study and your legislative recommendations so that we can consider them as we proceed with this legislation, or a version of the legislation including your recommendations, in the 109th Congress. We look forward to working closely with the Board throughout this entire process.

Sincerely,

Thomas M. Davis III

Henry A. Waxman

Jon C. Porter

Danny K. Davis

cc: Gary A. Amelio, Executive Director, Federal Retirement Thrift Investment Board

EXHIBIT 7

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

August 11, 2005

The Honorable Jon C. Porter
Chairman
Subcommittee on the Federal Workforce and
Agency Organization

Dear Congressman Porter:

This responds to your letter of July 6, 2005, concerning the Board's impending comprehensive review of Thrift Savings Plan investments. The Federal Retirement Thrift Investment Board appreciates your support and we look forward to cooperating with the Committee as we proceed.

As you know, a fiduciary must exercise the highest degree of skill and care when considering changes to the Plan's investment options. In preparing for this undertaking, the Agency issued a Request For Proposals on April 29, 2005, seeking competitive bids for ongoing expert investment consulting advice. As you may know, fiduciaries of large retirement plans regularly engage consulting assistance on investment matters. This approach places the TSP within the prudent practices of the industry.

Proposals will be evaluated under Federal procurement rules, and we expect to select an investment consultant by September, 2005. Coincidentally, we recently announced the selection of a new Chief Investment Officer, who will begin service on August 15, 2005, and will coordinate the Agency's work on this project.

When engaged, the consultant will perform several functions for the Board, which include:

- reviewing current and potential indexes for use in the existing funds;

- assessing the risks of various investment management practices and arrangements;

- assisting in the public bidding process for the four existing managed funds (providing input on issues such as index management, custody, fees, and securities lending practices); and

EXHIBIT 8

- reviewing existing and other available investment options and providing appropriate recommendations concerning new investment funds, if any.

It is premature to determine the form that any of the expert's recommendations resulting from these tasks will take. For the reasons explained below, we currently expect that the tasks will need to be completed in the order listed above. We will inform the Committee when we receive our expert's recommendations in any of these areas. It is not prudent to establish firm deadlines on the completion of each task. For your edification, however, a "tentative" schedule is described below. Since the exchange of this information with your Committee may involve sensitive ongoing procurement information, we have asked the Agency's General Counsel to work with the Committee's Counsel to ensure proper handling of these matters.

The sequence for completing these four tasks is based upon two important business reasons. First, the selection of the indexes for the current funds needs to be done very soon in order to complete the procurement process before our asset management contracts expire beginning next April. Second, the Board's index selections set the stage for the investment review.

The Board has followed this same practice before. In 1990, the Board selected a new index which brought mortgage backed securities into the F Fund for the first time. Investment contracts were competed and made effective in 1991. The Board then conducted a review of the investment universe. It did so knowing that there would no longer be a gap with regard to mortgage backed securities. Because of the new index selected in 1990, they would be included in the TSP's F Fund in the same proportional share as their broad market representation. Mortgage backed securities have now grown to 37 percent of the F Fund.

The review of the investment universe noted above took place between 1992 and 1995. Multiple investment options were examined, resulting in a considered Board decision to seek Congressional approval for the S and I Funds. The legislation authorizing the new funds was formally transmitted to the Congress and subsequently enacted. Systems changes to accommodate the additional fund offerings were made, and these funds were made available to participants in 2001.

EXHIBIT 8

While we do not expect the current review to take that long, this previous experience demonstrates that an orderly process was followed and a great deal of care was exercised by the fiduciaries when they considered changes to the Plan's investment options. A similar orderly process and high degree of care should be used in the current situation.

In 2000, the Board selected the Wilshire 4500 Index for the S Fund, which added REIT securities to the TSP for the first time. In the past four years, REIT securities have grown from 4 percent to 8 percent of the S Fund. Additionally, a small number of REIT securities have been added to the S&P 500 Index, which is the index the Board currently uses for the C Fund.

After the Board selects the indexes for the upcoming procurements, the proportions of the various sectors and subsectors will be known for the current TSP funds. At that point, potential gaps (and potential new investments) can be identified.

With regard to timing, the Agency has held preliminary discussions with potential consultants for this project. All agreed with our approach. However, none of the consultants with whom we spoke indicated that the project could be completed in less than one year. While we intend to move forward with dispatch and will certainly share what has been completed with the Committee, we do not expect that we will have all of the information in the time frame that you have requested.

We are also committed to ensuring that our review does not upset other important activities. First among these are the new Lifecycle Funds (L) which we are just now making available to participants. These asset allocation models constitute the most significant investment improvement since the S and I Funds were added. We intend to focus intently on the L Funds rollout this summer and early fall.

The Board also plans to complete the TSP's first ever competition for record keeping services over the next six months and to transition call center services out of the New Orleans Center, which has provided this service since 1987. When concluded, these efforts will substantially reduce our costs and improve service in this key area.

EXHIBIT 8

As with all TSP activities, the costs of these projects are borne by Plan participants. The TSP receives no appropriations of taxpayer funds from the Congress. Thus, the fiduciaries must ensure that all funds are spent prudently and solely in the interest of TSP participants and beneficiaries.

The independent Board members are specifically required by law to develop and establish TSP investment policy. In pursuing these responsibilities, the Board has periodically determined that statutory changes, including new funds, should be considered. When this has occurred, the Board, which is not subject to the President's legislative review process, has submitted its recommendations directly to the Congress for consideration.

I hope this extensive response including our plans and concerns is useful to the Committee. An identical response is being sent to each of the other Committee leaders who signed the letter. The Board members and the Executive Director are available at your convenience if you would like to further discuss this matter.

Sincerely,

Andrew M. Saul, Chairman

Alejandro M. Sanchez, Member

Thomas A. Fink, Member

Terrence A. Duffy, Member

Gordon J. Whiting, Member

Gary A. Amelio, Executive Director

EXHIBIT 8

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

GARY A. AMELIO
Executive Director

January 17, 2006

JAN 1 9 2006

The Honorable Jon C. Porter
Chairman
Subcommittee on the Federal Workforce and
Agency Organization
Washington, D.C. 20515

Dear Congressman Porter:

In our letter of August 11, 2005, all five members of the Federal Retirement Thrift Investment Board and I pledged to keep you and other Committee and Subcommittee leaders informed with regard to recommendations made by our investment consultant, Ennis Knupp + Associates, concerning our ongoing comprehensive review of Thrift Savings Plan investments.

With regard to the first item listed in that letter, enclosed you will find a report entitled "Index Evaluation" that was presented by the consultant and considered by the Board at its regular monthly meeting today. As you will see, after extensive review, Ennis Knupp has recommended maintaining the indexes currently used for the four privately managed TSP funds authorized by law. Their reasoning is detailed in the report. After extensive consideration, the Board members voted in favor of maintaining these indexes for our upcoming round of procurements to select asset managers under a competitive process.

The next task described in our August 11 letter -- assessing the risks of various investment management practices and arrangements -- is currently underway as we prepare to articulate our specific requirements on these matters in upcoming Requests for Proposals (RFPs) from the industry. They will be the next documents that will be developed in connection with our work in this area. I will provide you with copies of the RFPs when they are available.

I hope this information is helpful.

Very truly yours,

Gary A. Amelio

Enclosure

EXHIBIT 9

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February 6, 2006

The Honorable Jon C. Porter
Chairman, House Subcommittee on the Federal
Workforce and Agency Organization
Washington, D.C. 20515

Dear Chairman Porter:

I write in my capacity as Chairman of the Employee Thrift Advisory Council (ETAC) on the subject of H.R. 1578, your bill to add a real estate stock investment fund to the Thrift Savings Plan. ETAC is made up of representatives of 15 organizations that collectively represent millions of federal and postal employees, military personnel and retired employees who participate in the Thrift Savings Plan or TSP. It was established by the Federal Employees' Retirement System Act of 1986 to provide advice to the Federal Retirement Thrift Investment Board on behalf of TSP participants.

Last year, I submitted a statement to your Subcommittee when you held a hearing on this legislation. In it, I expressed considerable reservations about adding a real estate fund, or any other fund for that matter, to the TSP in the absence of a careful study of all the possible options for new funds and the support of the Plan's participants. As the new legislative year gets underway, those reservations have only grown. This is the case for two reasons:

First, it is now clear the TSP's fiduciaries, the FRTIB's five Presidentially appointed members and its Executive Director, oppose your legislation at this time. The Board believes Congress should await the recommendations of an Investment Consultant it has hired to review the Plan's existing funds and to recommend any new additions. I believe this is a sound approach.

Second, there does not appear to be any significant demand from TSP participants for such a fund at present. ETAC discussed the possibility of a real estate fund twice last year, in meetings on May 4 and October 14, 2005. None of the organizations represented on ETAC reported any support for a real estate fund at this time. A number or ETAC members, however, did voice concerns about H.R. 1578 and worried about using a political process to add funds instead of relying on the

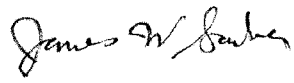
EXHIBIT 10

Hon. Jon C. Porter
February 6, 2006
Page 2

recommendations of the Plan's fiduciaries, as was done in the past with the S and I Funds. I share this concern.

I think you will agree that the Thrift Savings Plan is an extremely well-run benefit program that is highly valued by federal and postal employees. I share your goal of making the TSP even better, but urge you to reconsider your support for H.R. 1578, at least until the TSP's Investment Consultant makes its recommendations to the FRTIB. I look forward to working with you and your Subcommittee on TSP issues in 2006 and beyond. If you have any questions, please do not hesitate to contact me at the National Association of Letter Carriers (202.662.2871) where I work.

Sincerely,



James W. Sauber
Chairman, Employee Thrift Advisory Council

cc: Hon. Danny K. Davis

EXHIBIT 10

EMPLOYEE THRIFT ADVISORY COUNCIL

March 14, 2006

BY FAX – HARD COPY TO FOLLOW

The Honorable Jon C. Porter
Chairman, House Subcommittee on the Federal
Workforce and Agency Organization
Washington, D.C. 20515

Dear Chairman Porter:

I write in my capacity as Chairman of the Employee Thrift Advisory Council (ETAC) on the subject of H.R. 1578, your bill to add a real estate investment fund to the Thrift Savings Plan (TSP). ETAC is made up of representatives of 15 organizations that collectively represent millions of federal and postal employees, military personnel and retirees who participate in the TSP. It was established by the Federal Employees' Retirement System Act of 1986 to provide advice to the Federal Retirement Thrift Investment Board on behalf of TSP participants.

As I wrote to you previously in a letter dated February 6, 2006, the member organizations of the ETAC have discussed the real estate fund idea over the past year at a number of Council sessions and at meetings with representatives of the National Association of Real Estate Investment Trusts. Last week we discussed the issue again. I wish to respectfully inform you that the Council has decided to oppose the creation of a real estate fund in the TSP at this time. Attached please find a copy of the resolution that was adopted by a vote of 11-0 (with one abstention) on March 7, 2006 along with a copy of the current ETAC roster.

In general, there appears to be very little demand for a real estate fund among TSP participants. Moreover, the Council is reluctant to support adding a narrow sector fund to the broad-based index funds now offered by the TSP. In any case, we believe it would be prudent to await the recommendations of the investment consultant hired by the Thrift Investment Board to review the Plan's investment options before proceeding with any new funds. At our meeting, TSP Executive Director Gary Amelio indicated that this review will be concluded by the end of 2006.

Although we may differ on this specific issue, the Council shares your commitment to improve the Thrift Savings Plan for America's hardworking federal workers. Thank you for that commitment and we look forward to working with you in the future. If you or your staff has any questions or concerns, please do not hesitate to contact me at (202) 662-2871.

Sincerely,

James W. Sauber
Chairman, Employee Thrift Advisory Council

EXHIBIT 11

Resolution 1-2006

RESOLUTION of the EMPLOYEE THRIFT ADVISORY COUNCIL

On Proposals to Add a Real Estate Investment Fund to the TSP

Whereas the Employee Thrift Advisory Council comprises all of the major organizations of individuals eligible to participate in the Thrift Savings Plan; and,

Whereas the Council is required by law to advise the Federal Retirement Thrift Investment Board and its Executive Director on matters relating to the investment and administrative policies of the Thrift Savings Plan; and,

Whereas the Federal Retirement Thrift Investment Board comprises fiduciaries required by law to establish and develop policies for the investment and administration of the Thrift Savings Plan solely in the interest of plan participants and beneficiaries; and,

Whereas individuals and organizations representing specific economic sectors often promote investment policies and legislation to add sector funds to the Thrift Savings Plan to serve their own constituent members; and,

Whereas the addition of new fund options must be done with great care in order to avoid increasing the complexity and administrative cost of the Thrift Savings Plan; and,

Whereas any development of a new fund should come from an independent process developed by the Plan's fiduciaries that promotes integrity in the investment of Federal employee retirement funds; and,

Whereas the Board's Executive Director and members of the Employee Thrift Advisory Council have considered the arguments and examined the evidence presented by the National Association of Real Estate Investment Trusts in promoting a Real Estate Investment Fund option in the Thrift Savings Plan; and,

Whereas, Council member organizations have not received recommendations from members of our unions or associations or councils thereof favoring the addition of a Real Estate Investment Fund to the Thrift Savings Plan; and,

Whereas the Executive Director and the members of the Federal Retirement Thrift Investment Board oppose the addition of a sector fund such as a Real Estate Investment Fund to the Thrift Savings Plan at this time;

Therefore, be it resolved that the Employee Thrift Advisory Council of the Federal Retirement Thrift Investment Board opposes the addition of a Real Estate Investment Fund to the Thrift Savings Plan.

Adopted March 7, 2006

EXHIBIT 11

Roster
ETAC Members (Revised 01/18/2006)

Organization	Member	Address
American Federation of Government Employees	Jacqueline C. Simon Director of Public Policy	80 F Street, N.W. Washington, DC 20001
National Federation of Federal Employees	Richard N. Brown President	1016 16th Street, N.W. Washington, DC 20036
National Treasury Employees Union	Colleen M. Kelley President	1750 H Street, N.W. Washington, DC 20006
National Association of Government Employees	Vacant	159 Burgin Parkway Quincy, MA 02169-4213
American Postal Workers Union	Myke Reid Assistant Legislative Director	1300 L Street, N.W. Washington, DC 20005
National Association of Letter Carriers	James W. Sauber* Research Director	100 Indiana Ave., N.W. Washington, DC 20001-2144
National Rural Letter Carriers' Association	Clifford D. Dailing Secretary-Treasurer	1630 Duke Street Alexandria, VA 22314-3499
National Association of Postmasters of the United States	Walter M. Olihovik National President	8 Herbert Street Alexandria, VA 22305-2600
National League of Postmasters of the United States	Steve D. LeNoir President	5904 Richmond Hwy, Suite 500 Alexandria, VA 22303
National Association of Postal Supervisors	Louis M. Atkins Executive Vice President	1727 King Street Alexandria, VA 22314-2753
Federally Employed Women, Inc.	Freda Kurtz Past President	Wexford #225 2018 Highway 35 Spring Lake, NJ 07762
National Association of Retired Federal Employees	Dick Ostergren National Treasurer	606 North Washington Street Alexandria, VA 22314-7760
Federal Managers Association	Michael B. Styles** President	7946 Aster Avenue Yucca Valley, CA 92284
Senior Executives Association	Richard L. Strombotne	P.O. Box 83519 Gaithersburg MD 20883-3519
Uniformed Services	Carl F. Witschonke Deputy Director of Compensation (Military Personnel Policy)	Office of the Assistant Secretary of Defense 4000 Defense Pentagon Washington DC 20301-4000

*Chairman
**Vice Chairman

EXHIBIT 11

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

GARY A. AMELIO
Executive Director

March 28, 2006

The Honorable Jon C. Porter
Chairman
Subcommittee on the Federal Workforce and
Agency Organization
Washington, D.C. 20515

Dear Congressman Porter:

I am writing to advise you that the Thrift Savings Plan fiduciaries continue to oppose H.R. 1578, legislation to establish a Real Estate Investment Trust fund in the TSP. Our concerns with the legislation were detailed in the testimony we presented to the Subcommittee on April 19, 2005, and in our responses of May 17, 2005, to questions for the hearing record.

We first provided our technical analysis on January 18, 2005, demonstrating that the claims of the REIT proponents were overstated in response to Subcommittee Staff Director Ronald L. Martinson's inquiry. We further explained in that analysis and in our testimony that additional TSP funds should not be considered one at a time. Rather, as has been done in the past, a comprehensive review should be conducted by the fiduciaries (with the assistance of our investment consultant and input from the Employee Thrift Advisory Council) before the Board makes any determination whether funds should be added or removed. This approach assures participants that such determinations are made solely in their interest.

In our letter of August 11, 2005, to you and other Committee and Subcommittee leaders, I and the other TSP fiduciaries explained our time frame for such a comprehensive review of TSP investments. Board staff has since met with Committee staff on three occasions to provide updates, and I sent a letter to Committee leaders on January 17, 2006, to provide a written update.

Our view on the pending legislation has not changed. We will continue with our plan for a comprehensive review later this year. A similar letter is being sent to Ranking Member Danny K. Davis.

Very truly yours,

Gary A. Amelio

cc: Board members

EXHIBIT 12

04-Apr-2006 03:03pm From-Shaw Bransford Veilleux & Roth P.C. 202-833-8082 T-135 P.002/002 F-908

P.O. Box 44808 • Washington D.C. 20026 • (202) 927-7000 • Fax (202) 927-5192 • www.seniorexecs.org

April 4, 2006

VIA FACSIMILE

The Honorable Jon C. Porter
Chairman
Subcommittee on Federal Workforce
and Agency Organization
B-373A Rayburn House Office Building
Washington, DC 20515

The Honorable Danny K. Davis
Ranking Member
Subcommittee on Federal Workforce
and Agency Organization
511 Ford House Office Building
Washington, DC 20515

Re: The Senior Executives Association on H.R. 1578

Dear Chairman Porter and Representative Davis:

As you know, the Senior Executives Association (SEA) represents the interests of career federal executives in the Senior Executive Service (SES), and those in Senior Level (SL), Scientific and Professional (ST), and equivalent positions. We write concerning the establishment of a Real Estate Investment Trust (REIT) fund in the Thrift Savings Plan (TSP) as outlined in H.R. 1578, and to state that SEA has decided to take no position on this bill.

As a general practice, SEA takes positions on issues that directly affect career Senior Executives and those in equivalent positions, as well as "good government" management issues from time to time. SEA's Board of Directors has considered the REIT issue and has determined that neither does it significantly impact the career executive service nor does it represent a "good government" issue. Thus, we take no position on H.R. 1578.

According to statute, SEA does recommend for appointment one of the members of the Employee Thrift Advisory Council (ETAC). That member participated in a recent resolution opposing, or at least delaying, establishment of a REIT. SEA has full confidence in the ETAC representative we have recommended, and we trust him to exercise his independent judgment on matters coming before ETAC that impact the Thrift Savings Plan. His vote on an issue does not necessarily reflect SEA policy.

We hope this clarifies SEA's position on this matter.

Sincerely,

Carol A. Bonosaro

CAROL A. BONOSARO
President

William D. Bransford

WILLIAM BRANSFORD
General Counsel

EXHIBIT 13

1 have it.

2 So I just sent it around just to let them

3 know that we had concerns about it, and that we

4 expected to discuss it again this year. Now that

5 we're at this meeting, as many of you know I sent

6 around in advance a draft Resolution, which I will

7 also pass out, that I think we've gotten to the point

8 now where we can as a Council take a position on this

9 legislation.

10 This Resolution is intended to do that.

11 So I will just pass this around.

12 (Documents distributed.)

13 MR. SAUBER: I guess, rather than us all

14 reading it in quiet, maybe I'll just read it into the

15 record. I know a number of you have suggestions on

16 language, tweaking this a big, and I'm hoping even

17 major changes into it, I think, hoping that this

18 would be the ETAC's Resolution. But this is just a

19 starting point for us.

20 This we call Resolution 1-2006

21 "RESOLUTION of the EMPLOYEE THRIFT ADVISORY COUNCIL

22 "On Proposals to Add a Real Estate Investment Fund to

EXHIBIT 14

1 the TSP
2 "Whereas the Employee Thrift Advisory Council
3 comprises all of the major organizations of
4 individuals eligible to participate in the Thrift
5 Savings Plan; and,
6 "Whereas the Council is required by law to advise the
7 Federal Retirement Thrift Investment Board and its
8 Executive Director on matters relating to the
9 investment and administrative policies of the Thrift
10 Savings Plan; and,
11 "Whereas the Federal Retirement Thrift Investment
12 Board comprises fiduciaries required by law to
13 establish and develop policies for the investment and
14 administration of the Thrift Savings Plan solely in
15 the interest of Plan participants and beneficiaries;
16 and,
17 "Whereas individuals and organizations representing
18 specific economic sectors often promote investment
19 policies and legislation to add sector funds to the
20 Thrift Savings Plan to serve their own constituent
21 members; and,
22 "Whereas the addition of new Fund options must be

EXHIBIT 14

1 done with great care in order to avoid increasing the
2 complexity and administrative cost of the Thrift
3 Savings Plan and to avoid unnecessarily politicizing
4 the Thrift Savings Plan's operations; and,
5 "Whereas the Board's Executive Director and members
6 of the Employee Thrift Advisory Council have
7 considered the arguments and examined the evidence
8 presented by the National Association of Real Estate
9 Investment Trusts in promoting a Real Estate
10 Investment Fund option in the Thrift Savings Plan;
11 and,
12 "Whereas, Council member organizations have not
13 received recommendations of our unions or
14 associations or councils thereof favoring the
15 addition of a Real Estate Investment Fund to the
16 Thrift Savings Plan; and,
17 "Whereas, the Executive Director and the members of
18 the Federal Retirement Thrift Investment Board oppose
19 the addition of a sector fund such as the Real Estate
20 Investment Fund to the Thrift Savings Plan at this
21 time; and,
22 "Now, therefore be it resolved that the Employee

EXHIBIT 14

1 Thrift Advisory Council of the Federal Retirement
2 Thrift Investment Board opposes the addition of a
3 Real Estate Investment Fund to the Thrift Savings
4 Plan."
5
6 Now I just put that out for discussion.
7 Any changes, any discussion? I think we've discussed
8 the issue, the underlying issue, to a great extent in
9 the past but I'm prepared to spend as much time as it
10 takes to discuss it.
11 MR. BROWN: Yes, Mr. Chairman. I've seen
12 the Resolution when you put it out, and I we support
13 it as written. I think you hit it on the head. You
14 didn't say it. I will say it. I'm offended by the
15 actions of the people from REITs. They have gone in
16 there and they have politicized it.
17 They didn't do it in a forthright manner
18 as far as I'm concerned with the other Funds that
19 we've added as a Board. On behalf of my
20 organization, you know we definitely looked at it.
21 We took the opportunity to meet with them. What was
22 that, about a year ago, Mr. Chairman, or so?

EXHIBIT 14

conferees note, however, there is a waiting period before an employee may join the plan.

Payouts

The Senate amendment provides several options under which participants may receive benefits from the Thrift Savings Plan upon leaving Government employment. The options available depend on the participant's retirement status. Those entitled to an immediate basic plan annuity, to workers' compensation benefits, or disability benefits would have four options: (1) an immediate annuity; (2) a deferred annuity; (3) withdrawal of funds in one or more payments; or (4) a rollover to an Individual Retirement Account (IRA) or any qualified pension plan. Those entitled to a deferred annuity would have the same four options, but the first three would be available only after the deferred annuity commences. Those not entitled to an annuity have two options: (1) withdrawal of funds at age 62; or (2) rollover to an IRA or any qualified pension plan.

The House bill has no comparable provision.

The House committee bill provides that an employee, upon separation from employment, may withdraw his account, receive an annuity or receive a deferred annuity.

The conference agreement adopts the Senate amendment provisions with modifications. If eligible to retire from the basic plan, an employee may withdraw the account, receive an annuity, defer an annuity, or transfer the account into an IRA or any qualified pension plan. If the employee separates with title to a deferred annuity under the basic plan, the employee may elect any of the above options except that withdrawals may not be made until the employee is eligible to receive the deferred annuity under the basic plan. If the employee is not vested in the basic plan, the account is required to be transferred into an IRA or any qualified pension plan.

Loans

The Senate amendment authorizes a loan program beginning in January 1, 1988, limited to the employee's contributions and attributable earnings.

The House bill has no comparable provision.

The House committee bill authorizes loans or hardship withdrawals of employee contributions for the following purposes: (1) purchase of a primary residence; (2) educational expenses; (3) medical expenses; or (4) financial hardship.

The conference agreement adopts the House committee provisions on loans except that loans will not be permitted prior to January 1, 1988. Withdrawals during employment are not permitted.

Investment of thrift savings fund

The Senate amendment provides for a minimum of three funds for investment: A Government Securities Investment Fund, a Fixed Income Investment Fund, and a Common Stock Index Investment Fund. It provides for a 5-member board to establish additional funds as appropriate. The Senate amendment includes certain re-

EXHIBIT 15

quirements for the index fund and requires the board to define the stock index.

The Senate amendment provides for employees to have the opportunity at least once each year to elect the funds for investment or reinvestment. It includes a requirement that all monies contributed by employees to the Thrift Savings Plan during 1987 would be invested in the Government Securities Investment Fund with a 20 percent reduction of this amount each year through 1991. With respect to amounts contributed by the Government, 100 percent would remain in the Government Securities Investment Fund for the 6-year period, 1987-1992. In 1993, 20 percent would be available for investment in other funds increasing by 20 percent each year through 1996.

The House bill has no comparable provisions.

The House committee bill provides for a total of 6 funds for investment. In addition to the 3 included in the Senate plan, the House also provides for an indexed bond fund, an actively managed stock fund, and an actively managed bond fund. It provides for employee elections for allocating investments among funds at the same time as elections to participate in the Thrift Savings Plan (at least once every six months). The House committee bill provides for all Government contributions prior to 1992 to be invested in the Government Securities Investment Fund.

The conference agreement adopts the Senate provisions establishing three funds and gives the Board the responsibility to select the index for the Common Stock Index Investment Fund. The conferees chose to limit the number of funds to three for several reasons. Because this is a new undertaking in the Federal Government, a smaller number of funds will be more manageable. The three funds selected offer employees distinct and reasonable alternatives for investment. Should additional investment vehicles become desirable, the Congress can authorize them.

Most importantly, the three funds authorized in the legislation are passively managed funds, not subject to political manipulation. A great deal of concern was raised about the possibility of political manipulation of large pools of thrift plan money. This legislation was designed to preclude that possibility.

Concerns over the specter of political involvement in the thrift plan management seem to focus on two distinct issues. One, the Board, composed of Presidential appointees, could be susceptible to pressure from an Administration. Two, the Congress might be tempted to use the large pool of thrift money for political purposes. Neither case would be likely to occur given present legal and constitutional restraints.

The Board members and employees are subject to strict fiduciary rules. They must invest the money and manage the funds solely for the benefit of the participants. A breach of these responsibilities would make the fiduciaries civilly and criminally liable.

The structure of the funds themselves prevents political manipulation. The Government Securities Investment Fund is invested in nonmarketable special issues of the Treasury pegged to a certain average interest rate. The Fixed Income Investment Fund is composed of guaranteed investment contracts, certificates of deposits or other fixed instruments in which the Board contracts with insur-

EXHIBIT 15

ance companies, banks and the like to provide it with a fixed rate of return over a specified period of time. The Board would have no knowledge of the specific investments.

Finally, the stock index fund is one in which a common stock index such as Standard & Poor's 500 or Wilshire's 5000 is used as the mechanism to allocate investments from the fund to various stocks. A common stock index is a composite of stocks which moves up and down in value as prices of the stocks change. An index fund then allocates its investments to the stocks in the index in the same or similar ratio that the value of a given stock has to the total value of all of the stocks in the index. Thus, the actual decision to buy or sell a given stock is determined by the market place, i.e., the ratio of values of stock within the index. As the relative values change, the investments from the fund change. Hence no individual or group of individuals are capable of manipulating investments. The legislation bars Board members, the Executive Director and employees from voting proxies owned by the stock index fund.

The investment approach chosen by the conferees is patterned after corporate, state and local government, and the few existing Federal pension funds. Political manipulation is unlikely and would be unlawful.

As to the issue of Congress tampering with the thrift funds, the inherent nature of a thrift plan precludes that possibility. Unlike a defined benefit plan where an employer essentially promises a certain benefit, a thrift plan is an employee savings plan. In other words, the employees own the money. The money, in essence, is held in trust for the employee and managed and invested on the employee's behalf until the employee is eligible to receive it. This arrangement confers upon the employee property and other legal rights to the contributions and their earnings. Whether the money is invested in Government or private securities is immaterial with respect to employee ownership. The employee owns it, and it cannot be tampered with by any entity including Congress.

Drawing parallels between corporate reversions from overfunded pension plans and state legislative initiatives to use state pension monies for certain political purposes is irrelevant in this case. These examples are of funded defined benefit plans where the monies do not belong to the employees but, rather, are arrangements to fund a statutory or contractual benefit. In this case, the vested monies of the thift plan belong to the employees.

Because of the many concerns raised, the conferees spent more time on this issue than any other. Proposals were made to decentralize the investment management and to give employees more choice by permitting them to choose their own financial institution in which to invest. While the conferees applaud the use of IRAs, they find such an approach for an employer-sponsored retirement program inappropriate. In fact, the conferees received advice from the Department of the Treasury that such a plan would not even qualify as an employer-sponsored plan, thus losing its favorable tax treatment.

The conferees concur with the resolution of this issue as discussed in the Senate report (99-166) on this legislation:

EXHIBIT 15

1 employee retirement dollars --

2 MR. SAUBER: Is that acceptable to

3 everyone?

4 MS. KURTZ: Can you repeat it?

5 MR. RICHARDS: Sure. Whereas any

6 development of a new fund must come from an

7 independent process that promotes integrity in the

8 investment of federal employee retirement dollars --

9 MR. SAUBER: I would just say employee

10 retirement funds, maybe?

11 MR. RICHARDS: As opposed to dollars?

12 MR. SAUBER: As opposed to dollars.

13 MR. RICHARDS: Sure.

14 MR. SAUBER: Okay. If that's acceptable,

15 shall we put it in right behind the line we deleted?

16 MR. AMELIO: I don't want to interject.

17 This is your Council, and your resolution. You've

18 almost got it hit right on the head, when you say

19 "independent process," like, initiated or coordinated

20 by the Plan's fiduciaries.

21 MR. RICHARDS: Okay.

22 MR. AMELIO: Is that something that might

EXHIBIT 16

1 make sense?

2 MR. RICHARDS: A process initiated --

3 MR. AMELIO: I would say initiated and

4 coordinated by the Plan -- by the TSP's fiduciaries.

5 MR. SAUBER: That's acceptable to me.

6 MR. RICHARDS: So, should I re-read that?

7 MR. SAUBER: Yeah, why don't you do it one

8 more time?

9 MR. RICHARDS: Okay. Whereas any

10 development of a new fund must come from an

11 independent process, initiated and coordinated by the

12 Plan's fiduciaries, that promotes integrity in the

13 investment of federal employee retirement funds --

14 MR. SAUBER: Okay.

15 MS. KURTZ: There's a bit of a problem.

16 It seems to me that we are predetermining the only

17 process that might be used, and the future might

18 unfold something we haven't conceived yet or we

19 haven't thought about yet. We are limiting ourselves

20 in advance, do you think?

21 It sounds good, and I'm not sure that

22 there will ever be an exception, but there could

EXHIBIT 16

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

AMENDED MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 19, 2005

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 19, 2005, at 9:05 a.m., Eastern Standard Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Thomas A. Fink of Alaska, member (by telephone); Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Terrence A. Duffy of Illinois, member; Gary A. Amelio, Executive Director; and Thomas K. Emswiler, Acting Secretary. Other agency representatives attending were David L. Black, Director, Accounting; Pamela-Jeanne Moran, Director, Benefits Services; James B. Petrick, Director, Investments; Lawrence Stiffler, Director, Automated Systems; Thomas J. Trabucco, Director, External Affairs; and Robert Battersby, Contracting Officer. Also in attendance was a representative from the Department of Labor.

1. Approval of the minutes of the December 20, 2004, Board member meeting.

Chairman Saul entertained a motion for the approval of the minutes of the open portion of the December 20, 2004, Board member meeting. Mr. Fink proposed amending the last sentence of paragraph d. of section 2. to read: "The average cost per participant for 2004 is expected to be $31, which is less than private sector plans."

The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the open portion of the Board member meeting held on December 20, 2004, be approved as amended.

2. Thrift Savings Plan (TSP) activity report by the Executive Director.

EXHIBIT 17

a. Board meetings.

Board meetings will continue to be on the third Monday of each month with the exception of the February meeting. Due to the holiday, the February meeting will be on February 22. The May and June meetings are tentatively scheduled for Atlanta and Pittsburgh respectively and will include due diligence visits to Agency vendors.

b. Life cycle funds.

Mercer Investment Consulting, Inc. has recommended five life cycle funds: a current income fund, a 2010 fund, a 2020 fund, a 2030 fund, and a 2040 fund. The dates reflect the year in which the participant would expect to begin drawing down his or her account. As we approach 2010, that fund will collapse into the current income fund and we would establish a new 2050 fund.

SI International will be testing to determine whether it is efficient to rebalance life cycle accounts daily. Rebalancing daily will reduce transaction costs. If it proves inefficient, we will rebalance weekly. We will reallocate the funds quarterly.

After a competitive process, the Agency selected CitiStreet (a joint venture of CitiBank, New York and State Street Bank, Boston) to provide communications assistance for the life cycle funds. CitiStreet will develop the names for the life cycle funds as well as the communications strategy. The goal is to roll-out the life cycle funds on July 1, 2005, but a one to three month delay is possible.

The G Fund will continue to be the default fund since a legislative change is necessary to make life cycle funds the default investment option. As part of a long-term, communications plan, FRTIB staff will contact participants who remain in the G Fund six months after roll-out of the life cycle funds to remind them these new investment options are available. Mr. Amelio suggested we seek legislation making the life cycle funds the default fund after we introduce the new funds. Mr. Trabucco stated that he had had preliminary discussions with Congressional staff members regarding this and they seemed receptive to it. Mr. Fink and Mr. Sanchez recommended leaving the G Fund as the default fund. Both believed that participants should make their own investment decisions because the market might experience a downturn and participants should acknowledge

EXHIBIT 17

such a risk before investing in any fund other than the G Fund. Both believed it was important that we inform and educate participants about all available funds. Mr. Saul recommended that we wait until after implementation to decide which course to pursue.

c. Lock box.

The Treasury Department selected U.S. Bank in St. Louis to be our lock box vendor. We had sought a bank in the northeast that would be closer to the Agency; however, we were able to implement the lock box service six to nine months sooner by using U.S. Bank. We will begin testing in February and plan to implement the service in March. We estimate that using the lock box to process checks will save approximately $700,000 per year.

d. Legislative report.

Mr. Trabucco reported that the leadership of the Senate Government Affairs Committee and the House Government Reform Committee will remain the same in the new Congress, although the Senate Committee will change its name to the Committee on Homeland Security and Governmental Affairs. The Senate and House subcommittees are being reorganized and it is not yet clear which Senate subcommittee will exercise oversight over the FRTIB, nor has the leadership of either subcommittee been determined. Mr. Fink requested a memorandum on this once everything is determined.

Mr. Sanchez asked whether Congress has asked the Agency to provide information about the TSP in view of the President's plan to partially privatize Social Security. Mr. Trabucco reported that we have been asked and that we received similar calls for information under previous administrations. Mr. Amelio requested that the Office of General Counsel and the Office of External Affairs provide guidance to him and to the Board members regarding the permissible scope of comments they could make regarding the President's plan.

e. Open seasons.

Mr. Amelio reported that the last open season will be April 15 through June 30, 2005. As of July 1, 2005, participants will be able to change the amount of their contributions as often as they like. Ms. Moran noted that her Office is communicating this news to the participants.

EXHIBIT 17

f. Real estate investment trusts (REITs).

Mr. Amelio reported that an industry group continues to lobby Congress to add a REITs fund as a TSP investment option. Mr. Amelio noted that if the Agency were to consider adding any fund it would be prudent to engage an investment consultant to review all investment options. Mr. Saul noted that TSP participants already have significant amounts of REITs through the C and S Funds. Real estate stocks represent 1 percent of the C Fund and 6 percent of the S Fund. A fund with assets the size of the TSP would rank, as of December 2004, as the ninth largest holder of REITs, according to Morningstar, or fourteenth, according to Pensions and Investments.

g. Uniformed services participation rates.

Mr. Sanchez remarked that over 26,000 new uniformed service members joined the TSP from November to December 2004. In addition to this impressive growth, he pointed out that nearly 40 percent of active duty Navy personnel were now participating in the TSP.

2. Investment report and participation review.

Mr. Petrick provided the Board members with a report on the performance of the G, F, C, S, and I Funds during the fourth quarter of 2004, as discussed in the Executive Director's memorandum dated January 7, 2005. Tracking of the appropriate indices was quite close in all funds and trading costs were again small (in fact the S Fund made a profit on trading). The TSP's average expense ratio was 6 basis points. Barclays' proxy voting report, which covered the third quarter of 2004, noted no exceptions.

The members then made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f)(1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment poli-

NOTE: Ace-Federal Reporters, Inc., made a verbatim transcript of this meeting.

EXHIBIT 17

cies of the Government Securities Investment Fund, the Fixed Income Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Fixed Income Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Fund, and the International Stock Index Investment Fund are affirmed without change.

3. Closed session.

Prior to the meeting, on a vote taken by the Secretary, the Board members voted unanimously to close the meeting for a discussion of personnel and contracting matters. Present during the discussion of contracting matters were the Board members, Mr. Amelio, Ms. Moran, Mr. Petrick, Mr. Stiffler, and Mr. Emswiler. Present during the discussion of personnel matters were the Board members, Mr. Amelio and Mr. Emswiler.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection, and Chairman Saul adjourned the meeting at 11:15 a.m.:

MOTION: That this meeting be adjourned.

Elizabeth S. Woodruff
Secretary

NOTE: Ace-Federal Reporters, Inc., made a verbatim transcript of this meeting.

EXHIBIT 17

1 -- I continue to realize how naive and politically
2 unsophisticated I am.
3 (Laughter.)
4 MR. AMELIO: But I was startled when I
5 read, not only the tenor of these questions, but the
6 tone. We're going to respond in kind and I'm going
7 to make these questions public. The hearing was
8 public. I'm going public. We'll give you copies and
9 I intend to give the media copies. They ought to see
10 what's going on behind the scenes. And now that I
11 finally have these questions in writing instead of
12 just sitting in a room up there and hearing it, I
13 think everybody else can see what's going on.
14 Although, frankly, the media knows what's gone on.
15 Some of them have already mentioned to me through
16 their research they're well aware of what's going on.
17 So that's where we are right now.
18 MR. STROMBOTNE: What kind of time
19 schedule are you on for response to the questions?
20 MR. AMELIO: I plan on taking every day I
21 have available.
22 MR. TRABOCCO: They did not give us a

EXHIBIT 18

1 Funds?"

2 (No response.)

3 MR. SAUBER: Well, good, keep up the good

4 work. That seems to be going well.

5 The next item is to discuss the hiring of

6 an investment consultant. I don't know, Gary, if

7 this is -- in my mind, I always connect this with the

8 issue that we've dealt with over the last couple of

9 years with the efforts by the real estate industry to

10 expand the number of options in the Plan.

11 I know that in the course of your work in

12 running the Plan, that you're always looking at other

13 investment options, but, to me, this is a timely

14 thing to have this -- to make this move, because it

15 does -- I think it will slow down that train, that

16 rush on Capitol Hill by some people on the Committees

17 to sort of rush ahead and sort of satisfy some

18 constituents and push ahead with trying to force a

19 real estate fund onto us, whether we want it or not.

20 So, I'm very pleased that this step was

21 taken, if for no other reason, that we slow down,

22 take an honest look at this, and not be making these

EXHIBIT 19

1 kinds of operational decisions on the basis of
2 politics.
3 And so maybe you could fill in the members
4 of the Council about the decision and how you went
5 about it and what they'll be doing for us.
6 MR. AMELIO: Okay, we did hire an
7 investment consultant. The investment consultant is
8 from Chicago, Ennis Knupp, and we anticipate the
9 value of this consulting contract to be somewhere in
10 the range of $175,000 to $360,000 over the first year
11 of the contract.
12 Let me tell you why I wanted to proceed
13 and bring a consultant in. We've never had an
14 investment consultant in this Plan's history.
15 If you go to the private sector, you will
16 find that virtually every plan has a consultant.
17 These investment consultants bring a lot of industry
18 expertise that simply does not exist inhouse, because
19 of their familiarity with a broad sector of the
20 industry and the Plan and what they can provide for
21 us on a short-term basis.
22 Now, there are four reasons I wanted to

EXHIBIT 19

1 these people on a high hourly basis, for 3.5 million
2 participants to call in and offer their own
3 suggestions on how the Plan ought to be run. The
4 participants can feel free, if they want to send me a
5 letter or whatever, and, believe, me I get them, but
6 I would rather they would not call our consultant.
7 MR. SAUBER: I'm sure that among our
8 240,000 letter carriers, there are some investment
9 geniuses out there who can help you.
10 (Laughter.)
11 MR. AMELIO: So, okay, that's where we are
12 on the investment consultant.
13 MR. SAUBER: Gary, do you get a sense -- I
14 know you provide us with your correspondence with the
15 people on the Hill, the Chairmen of our Committees
16 that have been dealing with this particular real
17 estate legislation that was introduced.
18 Do you get a sense that, politically, this
19 isn't a good place now, that they're satisfied with
20 this? I'm not getting as many phone calls as I used
21 to.
22 MR. AMELIO: We sent a very detailed

EXHIBIT 20

1 letter to the Chairs of the Committee and
2 Subcommittee, the Chairs of both, and the Ranking
3 Minority Member of both on the House and Senate side,
4 explaining that we have engaged this consultant, what
5 we're doing, that it's a long-term process.
6 What we're doing is what every fiduciary
7 in America does in an appropriate manner with their
8 respective plans. We're well within the sweet spot
9 here on what we should be doing.
10 I think the word that we've gotten back is
11 that they understand what we're doing. They are
12 completely onboard with us. They understand that
13 we've hired a consultant, that it seems to be a very
14 credible thing.
15 We've heard nothing. Is that an accurate
16 statement?
17 MR. TRABUCCO: Yes. In fact, I checked
18 and there are no plans at this time to move the
19 legislation. That doesn't mean there isn't still --
20 new co-sponsors are being added to that bill that's
21 being promoted by the REIT industry. They're still
22 doing what lobbyists do.

EXHIBIT 20

Mr. PORTER. It is the practice of this committee to administer the oath to all witnesses, so if you would all please stand, I would like to administer the oath. Please raise your right hands.

[Witnesses sworn.]

Mr. PORTER. Let the record reflect that the witnesses have answered in the affirmative. Please be seated, as you have.

The first panel, I would like to now invite the panels to come forward. Of course, you are there, and the panel will now be recognized for opening statements. I would ask you each to summarize your testimony in about 5 minutes. Any fuller statement you may wish to make will be included in the record. First we will hear from Mr. Gary Amelio, Executive Director of the Federal Retirement Thrift Investment Board. After Mr. Amelio, we will hear from Mr. Thomas Trabucco, the Director of External Affairs for the Federal Retirement Thrift Investment Board. I would like to thank you both for being here.

Mr. Amelio.

STATEMENTS OF GARY A. AMELIO, EXECUTIVE DIRECTOR, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD; AND THOMAS J. TRABUCCO, DIRECTOR OF EXTERNAL AFFAIRS, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

STATEMENT OF GARY A. AMELIO

Mr. AMELIO. Good afternoon. My name is Gary Amelio, and I am executive director of the Federal Retirement Thrift Investment Board.

The duties of the executive director are established by law. One such duty is to meet with the statutorily created Employee Thrift Advisory Council [ETAC]. This is a duty which I find most useful and enjoyable. Since I arrived, we have held these meetings twice each year.

Before coming to the agency nearly 3 years ago, I had 23 years of private sector experience in the employee benefits, fiduciary industry. Because much of it involved Taft-Hartley plans, I had a great deal of experience with union and association leaders. I can state unequivocally that ETAC members are as knowledgeable about their plan and as protective of their members' retirement security as any of the employee leaders I have worked with throughout my career.

The letter inviting me to this hearing asked that I discuss the formulation of the ETAC resolution to oppose H.R. 1578. ETAC meeting transcripts, which we have provided to this subcommittee, show that the discussion began more than 2 years ago at the March 24, 2004, ETAC meeting. At that time ETAC Chairman Jim Sauber announced that he had been contacted by the REIT lobbyist who requested such a meeting. As Mr. Sauber explained it, the REIT advocates wanted to make a pitch for their proposal. He told ETAC members he had an open mind and told other members they may be contacted as well.

I had also been contacted by REIT representatives for a meeting. I advised ETAC that I was also open "to listen to anything within reason," but I had sent word through their lobbyist that I did not want "a hard sales pitch." I did state for the record my displeasure

upon learning that my position had been misrepresented as refusing to meet. Nevertheless, I told ETAC that I planned to meet with the industry association representatives and lobbyists, which I did on March 30, 2004.

The next ETAC meeting was held on November 9, 2004. Again, the issue was raised, and Chairman Sauber offered to facilitate a meeting of interested ETAC members with the REIT representatives. I explained that I had personally met with the trade association's leaders and their lobbyist for 2 hours. I also had my senior investment staff meet with them a second time to receive further information and to invite them to present any additional information they wished to develop in writing.

I further advised ETAC on November 9th that Tom Trabucco and I had met with House and Senate staff to discuss the proposal. I again stated my openness to receiving information, but cited three specific concerns: liquidity, fee structure, and setting precedent for other narrowly focused fund additions to the TSP. I was helped at this point by an ETAC member who demonstrated her knowledge by pointing out that we already have REITs in our existing broad-based domestic stock index of funds.

The Council next met on May 4, 2005, just 2 weeks after this subcommittee held a hearing on H.R. 1578. I was asked to and gave Council members a brief on what I had said during the hearing. A number of Council members voiced strong concerns. Others said they viewed it as an attempt to politicize the TSP. There was general agreement that each ETAC member would consult with his or her own organization's leadership.

With regard to the resolution itself, ETAC Chairman Jim Sauber contacted us in late January 2006 to advise that he wanted to schedule an ETAC meeting. This is standard operating procedure since the law requires the executive director to meet at the request of the Council.

Tom Trabucco advised me that Mr. Sauber wanted to have a potential resolution for consideration at the meeting. Mr. Sauber had also asked that the Board's general counsel, who also serves as the committee management officer, be consulted to be certain that he was proceeding consistent with the law. I told Tom to do everything appropriate to support the Council.

The resolution was indeed developed, circulated, raised at the March 7, 2006, meeting, discussed, amended, and approved. Nine Council members and three alternates were in attendance. One Council member—the representative of the uniformed services—abstained because of his unique situation of representing not an employee organization but the Department of Defense. From my perspective as the Federal official to whom the Council provides its view, the Council had, after 2 years of discussion and review, clearly stated its opposition to the REIT bill.

Thank you.

[The prepared statement of Mr. Amelio follows:]

STATEMENT OF GARY A. AMELIO, EXECUTIVE DIRECTOR, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD, BEFORE THE HOUSE SUBCOMMITTEE ON THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION
APRIL 26, 2006

Good Afternoon Chairman Porter and members of the Subcommittee. My name is Gary Amelio, and I am Executive Director of the Federal Retirement Thrift Investment Board. I am accompanied by Tom Trabucco, the Agency's Director of External Affairs.

In the early stages of planning for the hearing we were asked whether the Board member recommended by the House of Representatives, Mr. Terrence Duffy, would be available to testify. He was indeed interested in appearing before the Subcommittee. Although he was ultimately not invited, we request that his prepared statement be included in the hearing record.

The duties of the Executive Director are established by law. One such duty is to meet with the statutorily created Employee Thrift Advisory Council or ETAC. This is a duty which I find most useful and enjoyable. Since I arrived, we have held these meetings twice each year.

Before coming to the Agency nearly three years ago, I had 23 years of private sector experience in the employee benefits, tax, and fiduciary industry. Because much of it involved Taft-Hartley plans, I had a great deal of experience with union and association leaders. After five formal meetings (and other informal discussions) with ETAC members, I can state unequivocally that they are more knowledgeable about their plan and as protective of their members' retirement security as any of the employee leaders I have worked with throughout my career.

The letter inviting me to this hearing asked that I discuss the formulation of the ETAC resolution to oppose H.R. 1578. ETAC meeting transcripts (which we have provided to the Subcommittee) show that the discussion began more than two years ago at the March 24, 2004, ETAC meeting. At that time Chairman Sauber announced that he had been contacted by the REIT lobbyist who requested a meeting. As Mr. Sauber explained it, the REIT advocates wanted to make a pitch for their proposal. He told ETAC members he had an open mind and told other members they may be contacted as well.

I had also been contacted by REIT representatives for a meeting. I advised ETAC that I was also open "to listen to anything within reason" but I had sent word through their lobbyist that I did not want "a hard sales pitch." (I did state for the record my displeasure upon learning that my position had been misrepresented as refusing to meet. Nevertheless, I told ETAC that I planned to meet with the industry association representatives and lobbyists, which I did on March 30, 2004.)

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The Council next met on May 4, 2005, just two weeks after this Subcommittee held a hearing on H.R. 1578. I was asked to and gave Council members a brief on what I had said during the hearing. A number of Council members voiced very strong concerns. One talked about her concern that "this set of lobbyists got to a few congressmen and were successful." Others said they viewed it as an attempt to politicize the TSP. There was general agreement that each ETAC member would consult with his or her own organization's leadership.

With regard to the resolution itself, Council Chairman Jim Sauber contacted us in late January 2006 to advise that he wanted to schedule an ETAC meeting. This is standard operating procedure since the law requires the Executive Director to meet at the request of the Council.

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I am pleased to respond to your questions.

Mr. PORTER. Thank you for your testimony.
Mr. Trabucco, welcome.

STATEMENT OF THOMAS J. TRABUCCO

Mr. TRABUCCO. Thank you. Good afternoon, Chairman Porter, Congressman Davis, members of the subcommittee. My name is Tom Trabucco, and I am the director of external affairs for the Federal Retirement Thrift Investment Board. My position includes three main areas of responsibility: legislative affairs, the press, and relations with the unions and associations representing Federal and postal employees. I also serve as the agency's spokesman when the executive director is not available.

I have served in this position for nearly 20 years as a career member of the Senior Executive Service. Before that, I served for a total of 13 years, handling legislative matters for two organizations, the National Association of Retired Federal Employees and the National Federation of Federal Employees, as well as a staff member to the predecessor of this committee.

Since coming to the Thrift Investment Board in 1987, it has been my great privilege to work with many outstanding individuals in the agency, the employee organizations, the executive branch and the Congress, who were completely dedicated to the success of the Thrift Savings Plan. There has been a truly exceptional effort to assure those who placed their retirement savings in the TSP, that this plan will be managed solely in their interest by expert fiduciaries.

This does not mean there have not been different views openly expressed. My prepared statement includes some examples.

When Congress created the TSP, it recognized that the experts who serve as the plan fiduciaries, the board members and the executive director, would not necessarily be familiar with the Federal work force. To ensure that the employees eligible to participate had top-level input into all investment and administrative matters considered by the board, the House committee proposed the Employee Thrift Advisory Council. The Council was created and has functioned exactly as envisioned ever since.

Part of my job at the board is to serve as the secretary to the Council. In this role I am the primary point of contact between Council members and the executive director. Council members are appointed by the chairman of the board from organizations prescribed by law. I manage the process by which nominations are solicited from the presidents of each of these unions and associations. I am also responsible for filing the annual reports regarding Council activities, as required by the Federal Advisory Committee Act, and for performing other administrative support functions.

By law, the executive director meets at the request of the Council. I normally receive the first call that a meeting is being requested. I coordinate with the committee management officer to develop the meeting notice and forward the agenda for publication in the Federal Register. As Executive Director Amelio stated, I responded to Chairman Sauber's request regarding his resolution opposing REITs. He told me the points that he wanted in the resolution, and asked that I run them by the general counsel to ensure that they were put in proper legal language and that he was prop-

erly following the statutory provision regarding Council resolutions. I did so.

The general counsel advised me that the resolution I drafted, based on Chairman Sauber's specifications, was fine, and that his actions were consistent with both the law and the ETAC charter. A copy of that charter is attached to my testimony. She further advised that Mr. Sauber should be sure to circulate his resolution in advance of the meeting.

I forwarded the file that I had created to Mr. Sauber. I recall that he made two rounds of revisions, which he circulated to Council members in advance and copied to me. I also asked him before the meeting to send me his final version so we had a copy that could be promptly edited to reflect any amendments made at the meeting. The resolution was indeed again revised at the ETAC meeting. Board staff promptly produced a final version for ETAC members at the meeting, and it was approved by the Council.

That concludes my prepared statement. I would be pleased to respond to any questions.

[The prepared statement of Mr. Trabucco follows:]

STATEMENT BY THOMAS J. TRABUCCO, DIRECTOR OF EXTERNAL AFFAIRS, FEDERAL RETIREMENT THRIFT INVESTMENT BOARD, BEFORE THE HOUSE SUBCOMMITTEE ON THE FEDERAL WORKFORCE AND AGENCY ORGANIZATION
APRIL 26, 2006

Good Afternoon Mr. Chairman and members of the Subcommittee. My name is Tom Trabucco and I am the Director of External Affairs for the Federal Retirement Thrift Investment Board. My position includes three main areas of responsibility -- legislative affairs, the press, and relations with the unions and associations representing Federal and Postal employees. I also serve as the Agency's spokesman when the Executive Director is not available.

I have served in this position for nearly twenty years as a career member of the Senior Executive Service. Before that I served for a total of thirteen years handling legislative matters for two organizations -- the National Association of Retired Federal Employees and the National Federation of Federal Employees -- and as a staff member to the predecessor of this committee.

Since coming to the Thrift Investment Board in 1987, it has been my great privilege to work with many outstanding individuals in the Agency, the employee organizations, the Executive branch and the Congress who were completely dedicated to the success of the Thrift Savings Plan. There has been a truly exceptional effort to assure those who place their retirement savings in the TSP that this plan would be managed solely in their interest by expert fiduciaries.

This does not mean there have not been different views openly expressed. In a 1989 hearing, the Chairman of the Board's House authorizing subcommittee strongly urged the Executive Director to support a policy that would disinvest in certain companies doing business in Northern Ireland or South Africa. The Executive Director at that time respectfully declined. The Mortgage Bankers Association and others sought legislation to establish a mortgage backed securities fund in the TSP. The Board opposed this, and it was not advanced in the Congress.

Certain Members of Congress have also promoted legislation to require a small and minority-owned business fund, a precious metals fund, a corporate responsibility fund, and other additional TSP investments or divestments over the Agency's twenty-

year history. The Board examined and opposed each of these proposals. Although the Congress could have enacted any of these proposals over the objections of the Board, the proponents ultimately decided to defer to the fiduciaries who are required to act solely in the interest of TSP participants and beneficiaries.

When Congress created the TSP, it recognized that the experts who serve as the Plan fiduciaries -- the Board Members and Executive Director -- would not necessarily be familiar with the Federal workforce. To ensure that the employees eligible to participate had top-level input into all investment and administrative matters considered by the Board, the House committee proposed the Employee Thrift Advisory Council. The Council was created and has functioned exactly as envisioned ever since.

Although the Executive Director and the ETAC have worked together over the years, they have sometimes disagreed. For example, at the Subcommittee hearing in 1989 the Council Chairman made clear that his and many other ETAC organizations supported restrictions on investments in South Africa and Northern Ireland. More recently, some Council members have sought IRA type features for the TSP as well as other changes that are not being actively pursued at this time. These matters remain under active discussion, however. It is my expectation that future Executive Directors and Councils will continue to see the wisdom of discussing and agreeably working through issues to reach consensus for the benefit of Plan participants.

Part of my job at the Board is to serve as the secretary to the Council. In this role, I am the primary point of contact between Council Members and the Executive Director. Council members are appointed by the Chairman of the Board from organizations prescribed by law. I manage the process by which nominations are solicited from the presidents of each of these unions and associations. I am also responsible for filing the annual reports regarding Council activities as required by the Federal Advisory Committee Act and performing other administrative support functions.

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Chairman Sauber's request regarding his resolution opposing REITs. He told me the points that he wanted in the resolution and asked that I run them by the General Counsel to ensure that they were put in the proper legal language and that he was properly following the statutory provision regarding Council resolutions. I did so.

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That concludes my prepared statement. I would be pleased to respond to any questions you may have regarding the Employee Thrift Advisory Council.

Attachment

Mr. PORTER. Thank you very much. We appreciate your testimony.

I would like to begin questioning regarding a subcommittee hearing we had last year on H.R. 1578. In our hearing on April 19, 2005, on H.R. 1578, Mr. Amelio, did you ask the subcommittee to delay action on H.R. 1578 until after you studied the investment options for TSP?

Mr. AMELIO. I believe that I did.

Mr. PORTER. And we have done that, correct?

Mr. AMELIO. I believe that you have, yes.

Mr. PORTER. After we held our hearing on April 19th, we sent you written questions for the record to answer, as our usual practice after a hearing. I want to read something from the May 4, 2005 Employee Thrift Advisory Council. This is a transcript of an exchange between you, Mr. Amelio, and Mr. Strombotne—pardon me if I mispronounced the name—discussing the questions for the record asked by the subcommittee following the hearing of April 19, 2005. It is exhibit No. 18.

I am quoting Mr. Amelio. "But I was startled when I read, not only the tenor of the questions from the subcommittee, but the tone. We're going to respond in kind, and I'm going to make these questions public. I'm going public. We'll give copies, and I intend to give the media copies. They ought to see what's going on behind the scenes." Now, remember, this was after our meeting April 19th. This is for the full committee. This is after our meeting. This is Mr. Amelio. "We're going to go public. And now I finally have these questions in writing instead of just sitting in a room up there and hearing it. I think everybody else should see what's going on, although, frankly, the media knows what's going on. Some of them have already mentioned to me through their research they're well aware of what's going on, so that's where we are right now.

Mr. Strombotne: 'What kind of time schedule are you on for response to their questions?'

Mr. Amelio: 'I plan taking every day I have available.' From a transcript of May 4, 2005, ETAC meeting, page 77, emphasis added."

Mr. Amelio, what you mean when you said, "I'm going public?" Were you suggesting waging a media campaign against Members of Congress? Why were you so upset with Congress simply because we were asking questions? Can you answer my question?

Mr. AMELIO. I have a recollection. I just saw before the meeting, those transcripts, and my recollection is I believe that the questions that were submitted to us did not reflect an understanding of the information that we attempted to put forth, that we were going to do a full review. It appeared to me that they were driven by the industry, and that they were directed at a single fund rather than an in toto review of all available options.

Mr. PORTER. What did you mean when you said you were going to go public?

Mr. AMELIO. Keep this—just as we're doing now, be very open about this so that the plan's participants could see the board feels that to exercise its fiduciary duty, we need to know—or the participants need to know that we as fiduciaries are going to exercise our duty and ensure that we review every plan option and not simply

focus on one particular option at one particular point, that we wanted to have an independent consultant do the full review of all investment options.

Mr. PORTER. Why then did you say you were going to wage a media campaign against Congress?

Mr. AMELIO. I don't recall. If it's in there, then I said it.

Mr. PORTER. It is in there.

Mr. AMELIO. OK. Well, I haven't, so——

Mr. PORTER. Why would you say that?

Mr. AMELIO. I have no—I don't know why.

Mr. PORTER. Why were you so upset because Congress was asking you questions, and why did you complain about the tone of this subcommittee, that I think is very fair?

Mr. AMELIO. Because, I believe, that the questions, as written, seemed to be written by the industry, rather than by an independent objective group, which I assume that the subcommittee, the role that you would take is the same role that the fiduciaries would take.

Mr. PORTER. So you are saying that those questions were written by the industry is why you were going to——

Mr. AMELIO. No, I don't know who wrote them.

Mr. PORTER [continuing]. Take the time to go to the media because you thought they were written by the industry?

Mr. AMELIO. I don't know who wrote them. It was just my own impression.

Mr. PORTER. Or were you afraid to answer those questions?

Mr. AMELIO. Not at all.

Mr. PORTER. On July 5th, Senators Collins, Lieberman, Voinovich, wrote to Chairman Saul. The Senators noted that the FRTIB was undertaking a review of investment options for Thrift Savings Plan. Senators requested a written report of the findings and recommendations of the review by January 1, 2006. That is exhibit No. 6.

The next day, July 6th, Chairman Davis, Representatives Waxman, Danny Davis, myself, wrote to Chairman Saul to request a written report on TSP investments by January 1st. The letter stated, "We look forward to the completion of the study and your recommendations so that we can consider them and proceed with the REIT legislation or a version of that legislation, including your recommendations, in the 109th Congress."

On August 11th, you, Mr. Amelio, and five board members, respond with a letter to the subcommittee which indicated the board had issued a request for proposals on April 29th, seeking competitive bids for ongoing expert investment consulting advice, exhibit No. 8.

In the letter the board stated it expected to select an investment consultant by September 2005.

Mr. Amelio, in the letter of August 11th, a study of the investment options for TSP is the last work item in the request for proposals; is that correct?

Mr. AMELIO. Is the—in terms of the work the consultant is doing for us, the fourth item is a review of investment options, that is correct.

Mr. PORTER. Why was it the fourth?

Mr. AMELIO. That was a practical measure to comply with Federal procurement law.

Mr. PORTER. To put it forth was per law?

Mr. AMELIO. No, but we had to get several other things done in advance of that that were required, and——

Mr. PORTER. And what were those things?

Mr. AMELIO. Reviewing the current indexes, which had to be done before we take—go out for RFP on the existing fund managers, which we have to complete by the fall of 2006.

Mr. PORTER. In the letter the board states that the tasks will need to be completed in the order listed. It is not prudent to establish firm deadlines on the completion of each task. So the study of investment options was your lowest priority, correct?

Mr. AMELIO. In the order in which we had to satisfy law, yeah, it had to be put fourth. I wouldn't say it was the lowest priority. I would simply say we had to address things that the law required us to first.

Mr. PORTER. Why did you refuse to accelerate the study of the investment options? Was it in defiance of Congress and the Senate?

Mr. AMELIO. Not at all. We have—the TSP is required under the statute to operate at low expenses, and therefore, we had to do the RFP. And in order to get the RFPs completed for the investment manager, we had to review the indexes first. Those two things had to be done, one, two. Obviously, then, the study would be completed after those, which we are doing, but we have indicated we'll get them done before the close of 2006.

Mr. PORTER. Mr. Davis.

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

Mr. Amelio, you noted in a recent Federal Times article that the board hired Ennis Knupp to assess the plan's current investments and to report back by the end of the year if there were any material gaps in the TSP.

I have two questions. One: what will the Ennis Knupp study entail? Can an informed decision be made about adding funds to the TSP without this assessment? And how important is the study in determining which funds if any should be added to the TSP?

Mr. AMELIO. Ennis Knupp is an independent nationally renowned investment consulting firm. They will—their study of the universe of options will consist of two pieces. First, they will look at the existing funds and determine whether there are any material gap in the funds.

The second thing they will do is, if they believe there is a material gap, look at the industry and determine whether there is any product out there that could appropriately fill the material gap. That study will include, but it certainly will not be limited to REITs. It will look at emerging markets. It will look at bonds. It will look at TIPs. It will look at any variety of investments. That is the way any appropriate fiduciary that is charged with managing an employee benefit plan does look at a participant directed plan. It would, I believe, be a breach of fiduciary duty to simply look at one fund without looking at the fund lineup and seeing what's in there or what isn't and make a decision on that basis.

Mr. DAVIS OF ILLINOIS. So one would be in a better position to make a decision with the information that would be generated than

they are without the information that would be generated once the study is completed?

Mr. AMELIO. Absolutely, yes, sir.

Mr. DAVIS OF ILLINOIS. Would you say that would be the common opinion of other experts in the field?

Mr. AMELIO. I believe that every fiduciary of a participant directed defined contribution plan in this country would take the same approach, and the larger the plan, the more important it is that process be followed because of issues like liquidity and fees and availability of products to the plan, yes, sir.

Mr. DAVIS OF ILLINOIS. Mr. Terrence Duffy, chairman of the Board of the Chicago Mercantile Exchange and the House of Representatives' nominee to the Thrift Savings Board, in written testimony submitted for this hearing, stated that a technical analysis demonstrated that the proponents of a REIT fund overstated the case for such a fund.

What would you think he perhaps meant by making this statement?

Mr. AMELIO. Well, I spent about 22 years in the industry—before I came into this position—in the private sector, and when proponents of any investment vehicle—when I say "proponents" I'm talking about sales people and promoters of investment products—roll out figures, they roll out figures which put their particular fund or their particular industry in a better light than some other person using other figures would do it, and I believe in this case there were several factors that went into that. We've had our chief investment officer and her staff look into this, and I believe a couple of the weightings that were used in the study that the REIT lobbyists put forth could be challenged by others.

For example, I think there was an overweighting of 40 percent in REITs versus the allocation to equities when most other consultants might only use a 15 percent allocation. The second thing is, the REIT industry, or the real estate industry certainly got hot for a few years, but past performance is no indicator of future performance. I heard those kind of comments before. And if you're investing based on past performance, it's like driving a car by looking through the rear view mirror. It might be reassuring at first, but it can be dangerous.

Mr. DAVIS OF ILLINOIS. And so the continuous gathering of information really puts you in the most comfortable position to feel that the benefits of your decisions are going to be favorable?

Mr. AMELIO. It absolutely does. I mean that's what fiduciaries do. You have to study all of the options, all of the materials, and I think it's particularly important that we get it from an independent consultant.

Mr. DAVIS OF ILLINOIS. Thank you very much.

Mr. PORTER. If I could just respond to a couple of the comments that I don't think are quite accurate. If we look at rates of return, Thrift Savings Plan investment fund performance, G Fund from 1988–2005 was 6.5 percent, in 2000–2005 was 5 percent. The I Fund was 7.7 percent from 1988 to 2005. The fund was from 2000 to 2005, 3.2 percent. The F Fund 7.7 percent from 1988 to 2005, and we look at 2000 to 2005 of 6.9 percent.

Now, given these numbers to show an analysis that was done based upon the investment in REIT funds—and again, I think Federal employees are capable of making decisions. I trust that they are smart and intelligent and know what they are doing.

If you look at these funds, the REIT Fund in 1988 to 2005 gained 13.8 percent, compared to the G Fund was 6.5, the I Fund was 7.7, the F Fund was 7.7, the C Fund was 13.3, the S Fund was 13.6. The REIT was right up there with the C and the S at 13.8 from 1988 to 2005.

From 2000 to 2005, the REIT Fund increased 20.7 percent, the G Fund was 5 percent, the I Fund was 3.2 percent, the F Fund was 6.9 percent, the C Fund was 0.2 percent, S Fund was 4.7. The REIT Fund was 20.7 percent. So if we look at 1988 to 2005, it is 13.8; from 2000–2005 it was 20.7 percent.

I am sorry, maybe we are reading from a different set of stats.

Mr. Davis, Chairman Davis.

OK, Mr. Marchant.

Mr. MARCHANT. Thank you.

Mr. Amelio, in some of the literature that has been given out, it says that REITs are already a part of the core component, and I can't find anything in my material up here that says what part, what percentage of the core component it is. Do you know offhand, or is it in our material?

Mr. AMELIO. I can give it to you. I am not sure what all materials you have there, sir. It is—the REITs are a proportion of the two domestic equity funds in proportion to their overall totality of investment in the United States economy. So if you look at the fair market value of REITs in the TSP as of 3–31–06, it is $1.71 billion of the current TSP as invested in REITs. We could break that down because some REITs are held in the C Fund, and other REITs are held in the S Fund, and I do have those numbers here if you want to give me a second. But it gets to—oh, here it is. I'm sorry. OK. $564 million of that is held in the C Fund, and $1.14 billion is held in the S Fund.

To give you an example as to how that might impact an individual participant, if you were a participant in the TSP and you put your account in the appropriate L Fund—and this would be a participant who is younger and has a longer time horizon till retirement—approximately 2 percent of your account balance would be in REITs. And that basically is the same allocation that you might find if you went out and got an investment advisor to allocate your entire account versus all the different segments, pharmaceuticals, banking and finance, oil, energy, etc., if you were to pay an individual advisor.

And actually, that also ties back somewhat to the chairman's point about there's always a debate in the industry, are you stock picking or are you doing asset allocation? Most investment advisors say asset allocation, and that's what we're intended to do with these broad-based index funds that we have in the plan that Congress created, and what we even do more so with the L Funds, which are completely asset allocation, as opposed to stock picking, going out, finding something that's hot and investing in it at that particular point in time.

Mr. MARCHANT. When the board made its decision to not consider this fund until it got the report, did they take into consideration their fiduciary duty, not on the downside and on the protective side, but on the upside and the potential gain that they were, in essence, not allowing their investors to take part in? Because if I am in TSP, and I am, and aggressively in it, and I can't invest that money, because of the match, I can't invest that money anywhere else, and I have some limits on—the TSP board has in essence placed some limits on my investment horizon because I am getting a match from the Government. To me, it has limited my ability, not just for the upside, because while the positive returns are very good, REITs, historically in my portfolio and portfolios that I have dealt with at Teacher Retirement System in Texas, Employee Retirement System in Texas, have been used as a hedge as much as they have for upside potential.

Do you think that the board, once it receives its report, will reconsider this?

Mr. AMELIO. I think that the board will support the independent consultant's report, whatever is in there, as long as it appears reasonable on its face, and I have no reason to believe it wouldn't.

I would suggest to you that contrary to what's been said earlier, this plan is as fully diversified as any plan could be. We cover every U.S. domestic stock that there is between the index funds, and Congress did this in 1986. I mean it was genius when they created this plan, that it is low cost broad-based index funds, so there is diversity here.

I also would, to answer the first part of your question, I think the board very much considered its fiduciary duty. This is a very impressive board. Although they are politically appointed, they take their fiduciary duty seriously, and I think they're acting in the plan participants' best interest by wanting to see the independent review of the expert firm before making a decision.

And, finally, we haven't said anything bad about REITs. We're not saying they're good or bad. We're simply saying we don't want to recommend any fund addition to the committee until we've had an opportunity to review the current lineup and all the potential possibilities if there are any material gaps. That's all we're saying.

Mr. MARCHANT. Thank you.

Mr. PORTER. Just a point of order for information. Yale University Endowment Chief of Investment, I mentioned in my opening statement, urges real estate allocation of 20 percent for investors. Several of the largest hundred public defined plans, including California Public Employees Retirement System, which is the largest, and the New York State Teachers Retirement System, allocated over 6 percent of their total to commercial real estate. I just think that should be included.

Thank you.

Mr. Van Hollen, questions? I am sorry. Congresswoman, do you have any questions?

Ms. NORTON. Yes. Just let me make sure my comments were understood. I think they were. But my comments about the maligning of the TSP and its danger had nothing to do with the press. I didn't think the press reports were distorted. I think they reported. If there were some corrections and somebody got it wrong, I would,

with the chairman, decry the notion of not trying to get a comment from the chairman. One of articles said that they talked with a spokesman for the chairman, so I think if he has something to clear up, I would certainly welcome it, because I think it would benefit this whole discussion.

My comments, they reported campaign contributions. They got that from the Congressional Record. They got when they were put in. The nexus and the link is unhealthy. It is unhealthy for this discussion. It is unhealthy for the fund. The press is in the business of reporting. There they did not editorialize on the matter, and I want to make that clear that I think they were doing their job.

The fact is, that this Congress is or should be very sensitive to appearances. We have a lobbying bill that is right this moment still trying to get enough votes to get the rule passed. This Congress has become all about lobbying and corruption. So the timing could not be worse, especially when we are talking about something where virtually every member was in agreement in the first place.

Mr. Chairman, as you know, I am so perplexed. I was glad to hear your last question, because you asked about Yale's 20 percent. That was in your testimony. Frankly, I was going to ask about it. That is my alma mater, and it is not a private sector IBM, and frankly, I was on the board of the Yale Corp., so I know just how conservative such boards are. That really was going to be my question.

I do have a question, because I don't equate the TSP with IBM and the private sector. Yale and other charitable institutions, and their caution is, I think, more what has won the respect of the TSP over the years. But as I sat here listening to some of the questions, and once again, glanced at the title of this hearing, I was just perplexed. Considering the views and advisory roles of the Employee Thrift Advisory Council, well, you know, Employee Thrift Advisory Council is not central here, happens to be important as far as I am concerned, because actually money is involved. And I think the reason that many of us wanted this hearing is that we should begin to get some answers because we were being rushed to a vote right away, got to do it right away, there is some emergency. So we wonder, my God, let's see what we can find out.

So I just want to object that we're talking about the Employee Thrift Advisory Council that are kind of in the same position we are, trying to find answers from the people who run the program itself. Much as I sympathize with them, they can't possibly be at the center of our concerns today.

I would like to ask a Yale question. I would like to ask—it is the kind of question that made me really wonder, Mr. Amelio, about whether the TSP was stuck in the past or whether it was prepared to move ahead at our last hearing. I like to compare apples with apples, not private sector corporations who are in the business of winning and losing, because the employees of the Federal Government are not in that business when they join the TSP.

I would like to ask you if you have looked at relevant, responsible institutions like educational institutions, other such institutions that are substantially invested in the market or under pressure to in fact generate revenue for their endowments and the like,

and how you are informed, if at all, by what other or similar funds are doing? And if you could justify the difference between, for example—I will just use that as an example, because, Chairman, I think rightfully—I don't know if he is from Yale or not, but he rightfully put this as an example. If not Yale, you can cite somebody else who hasn't done the same thing, and that would inform me of what I don't yet know.

Mr. AMELIO. Am I allowed to answer?

Mr. PORTER. Please.

Ms. NORTON. You don't have to ask his permission to answer my question.

Mr. AMELIO. Well, I was watching the time. I'm sorry.

Ms. NORTON. Oh, I see.

Mr. AMELIO. Just basically, yes, we have. And to just draw a distinction between the plans you're talking about, the Yale plan and CalPERS, etc., those plans are what are called actively managed by managers. Percentages are set up and managers actively buy and sell in guidelines. The TSP is a participant-directed plan, and you look at a menu of funds. What we have done, for example, is you can look at the top 20 funds like the TSP in this country that are participant directed. You would find, for example, only four of them have REITs in——

Ms. NORTON. Such as, please, such as?

Mr. AMELIO. Such as IBM—they're not public, they're private companies—IBM, General Motors, Ford. I've got a list here. Boeing, Exxon, Lockheed, Verizon, Northrop, Procter & Gamble, to name a few. And four of those top 20 do have REITs, but they're all still smaller than us, and all of the plans that have REITs have a huge number of options compared to us, which gets into my concerns about liquidity and fees.

Ms. NORTON. Mr. Chairman, I am sorry, if I am going over, so I will not go further. I hope we will have another round. I would like to ask for the record that the two articles, one from the Federal Times, the other, be made a part of the record.

Mr. PORTER. No objection.

[The information referred to follows:]

FederalTimes.com

Playing politics with your TSP

Rejected by TSP, real estate lobby turns to Congress

By TIM KAUFFMAN

April 24, 2006

Two years ago, the top lobbyist for the real estate investment industry met at the downtown Washington offices of Gary Amelio, who oversees the Thrift Savings Plan, to make a pitch.

The $180 billion retirement savings plan, which covers 3.5 million civilian and military employees and retirees, should create a fund tied to income-producing real estate such as hotels and apartment buildings, said Steven Wechsler, president of the National Association of Real Estate Investment Trusts. Adding such an option, called a REIT fund, would enable TSP participants to get in on the real estate boon that was under way, Wechsler and his staff argued.

Amelio and his staff listened, and even invited the group back for a second meeting. But they were unconvinced. TSP already included real estate investment trusts in two of its five funds, which are linked to a broad cross-section of investments. But unlike those funds, the proposed REIT fund would be tied to the fortunes of a single sector, which spelled an unacceptable risk to Amelio and other TSP officials. How could they explain any losses to TSP members if the real estate market were to plunge, like the once-hot tech sector did some years ago?

"They were simply sales people; they weren't investment experts," Amelio told *Federal Times*.

Rejected, the real estate lobby went to Plan B: It hired consultants to pitch the proposal to key lawmakers and contributed hundreds of thousands of dollars to lawmakers in hopes of advancing a bill to accomplish what the thrift board refused to do.

One of the biggest recipients of the group's campaign donations was Rep. Jon Porter, R-Nev., who heads the House Government Reform subcommittee on the federal work force and agency organization. Last April, Porter, along with 12 other lawmakers, introduced HR 1578, which would create a real estate fund in the TSP. Since then, the bill has garnered 163 co-sponsors — more than a third of House members.

The real estate association's political action committee contributed $265,000 to House members who signed onto the bill — three-quarters of all the money the PAC doled out to House members, campaign records show. In the same period, the association directed an additional $56,000 through other political action committees that wound up going to Porter .

Porter was unavailable to comment, said Chad Bungard, Republican staff director for Porter's subcommittee. But Bungard denies any connection between campaign contributions and Porter's support for the bill.

"We feel this is the next best option," Bungard said. "Are we adding it because of lobbying? No."

Porter plans to call for a vote on the bill at a subcommittee hearing scheduled for April 26, which would send it on to the full Government Reform Committee, Bungard said.

The real estate association's lobbying efforts have incensed members of the Federal Retirement Thrift Investment Board, which oversees TSP, and the Employee Thrift Advisory Council, a group of 15 people representing unions

and management associations that advises the thrift board. The council voted unanimously in March to oppose the real estate fund.

"They have a vehicle to bring a suggestion, plans, et cetera, to the Thrift Savings Plan as a whole. Those vehicles are the main board and certainly the advisory council," said advisory council member Richard Brown, president of the National Federation of Federal Employees, during the council's March meeting. "They were given access to those vehicles, and it didn't turn out their way. So they tried the backdoor approach, to go in and lobby Congress."

The real estate association certainly isn't the first group to try to persuade the thrift board and lawmakers to add a fund tied to a particular industry. But what's different this time, officials say, is the strong legislative support the real estate association has corralled. And that support, those officials say, is directly related to the association's dogged lobbying efforts. Between July 2004 and December 2005, the association paid $450,000 to three Washington firms to lobby Congress, the thrift board, the White House and the Treasury Department for the real estate fund and other issues, Senate records show.

Those firms employed lobbyists with key ties to the House, including Dan Moll, former deputy staff director of the House Government Reform Committee, which would need to approve any legislation affecting TSP before it could be voted on by Congress; and Melissa Schulman, former policy director to House Minority Whip Steny Hoyer, whose Maryland district includes hundreds of thousands of active and retired federal workers.

Wechsler said he's baffled by complaints that his group is circumventing the process by speaking to lawmakers.

"Congress has the ultimate responsibility. Speaking to the elected representatives, who are in fact participants of the plan, seems to be a reasonable proposition to us," Wechsler said. "There is no end-run. This is a full and open process where we have communicated, I think, to all parties that are part of the decision-making process, including Congress."

The political donations

Since January 2005, the National Association of Real Estate Investment Trusts has dispensed more than $265,000 in direct contributions to 78 of the 163 lawmakers who signed on to the bill, according to the most recent campaign finance records. Most of those contributions — ranging from $1,000 to $7,500 and averaging $3,300 per lawmaker — were made within a month or two of the lawmaker signing on to the bill, records show.

Rep. Danny Davis of Illinois, the ranking Democrat on the work-force subcommittee, said he doesn't believe those contributions are swaying lawmakers' decisions on whether to support or oppose the real estate fund — even though it's clear that money does play a role in the congressional process.

"There's no way to suggest that money does not have some influence. There's no way to do that, because it does," said Davis, who signed onto the bill in March and hasn't received a campaign contribution from the lobbying group. "But by the same token, I'm not of the opinion that members of Congress just kind of run to decisions purely on the basis of who may have given them a campaign contribution."

Tony Edwards, executive vice president and general counsel of the real estate association, said political contributions have had no bearing on lawmakers' support for the TSP legislation.

"When we talked to people on the Hill on this, we focused purely on the merits, and contributions are completely divorced from that," Edwards said.

Indeed, more than half of the 163 lawmakers sponsoring the bill have received no direct contribution from the lobbying group during this term.

Sen. Norm Coleman, R-Minn., who introduced a companion measure in the Senate April 3 that has no co-sponsors, also has received no direct contributions from the lobbying group.

Politicizing the TSP

But many officials still contend the lobbying is having a direct impact, noting the bill has garnered widespread support even though TSP officials are opposing it and no employees are clamoring for it.

"The decisions are being made on political grounds rather than rational, financial analysis," said Frank Cavanaugh, who was the first executive director of Federal Retirement Thrift Investment Board. He has been asked to provide written testimony to the House subcommittee for the April 26 hearing on the real estate fund.

Because of its size, TSP will always be a target for groups seeking a slice of that money, Cavanaugh said. TSP had $180 billion in assets as of Feb. 28 and is the largest defined benefit plan in the country. If 10 percent of those assets were put into REITs, TSP would instantly become the largest REIT investor in the world, giving it incredible sway in the real estate market.

Current REIT investors have a clear financial incentive to broaden the market to the thrift plan's participants, said Mike Miles, a financial consultant and *Federal Times* columnist who has been asked to submit testimony for the April 26 hearing. Federal employees eager to tap into the market would be attractive buyers for investors who got into the market before real estate prices started escalating and are now deciding to sell their shares amid increased signs that the once-hot real estate market is cooling.

"The way you're successful is, you buy things when they're cheap and sell when they're successful," Miles said. "This is potentially going to be beneficial to those who currently own REITs and decide they would like to sell them."

The real estate lobbying group disputes the notion that it is pushing for the real estate fund to help its own members.

"Our interest is simply adding another choice to the menu. Nobody is being forced to invest in it; we just think people should have the option to invest in it," Edwards said.

A 'bad precedent'

Proposals to add new funds to the TSP — such as the 1996 addition of the S and I funds — are studied and developed by the TSP board and submitted directly to Congress for approval instead of first being cleared by the White House, even though thrift board members are appointed by the president.

Allowing the real estate association to go directly to Congress to lobby for a new fund would open the floodgates to other trade associations and industries seeking a slice of the TSP pie, said James Sauber, chairman of the Employee Thrift Advisory Council.

"This would set a bad precedent if we had organized interests who were coming from the outside and pushing their favorite investment vehicle," Sauber said.

It also could lead to many more plans being added to the TSP, which could overwhelm and confuse participants and dilute the strength of having a limited number of broad-based funds, Sauber said.

The thrift board hired Ennis Knupp + Associates to assess the plan's current investments and to report back by the end of the year if any sectors are underrepresented, including real estate, and should be given more weight in any TSP funds, Amelio said.

"Our position is that REITs are not good or bad," Amelio said. "All we're saying is, before you add any fund or investment vehicle to a plan, you have to look at the lineup, determine the material gaps and see if there's any product out there that would fill that gap."

Amelio has said TSP's strength lies in its offering of a limited number of broad-based index funds. Adding an industry-specific fund would be would be a "dramatic change" for the plan, said Tom Trabucco, director of external affairs for the thrift board.

Congress should hold off on adding the real estate fund until the independent review can be completed, Amelio said.

Davis said he and other Democrats on the House Government Reform Committee also would prefer to wait until the review is completed to decide whether to add the real estate fund to TSP.

"I just want the train to be slowed down enough to have the most information, so hopefully we make the most informed decision," he said.

Ultimately, Davis said he would make his decision based on the interests of the plan participants.

"It's the plan I'm most concerned about. If I think it's going to be good to protect the interest of the members of the plan, and to make sure people get the most out of their resources, then I'm for it. If I think it's going to be detrimental and not helpful or it's going to be too risky, then I'm not," Davis said. "When the deal goes down, I have to believe that I've made my determination on the basis of the most informed logic that I can muster."

Related: Experts debate pros and cons of TSP real estate fund

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FederalTimes.com

Experts debate pros and cons of TSP real estate fund

By TIM KAUFFMAN

April 24, 2006

There's no question real estate has been a hot investment in recent years, thanks to skyrocketing prices that seem to know no end. But should the Thrift Savings Plan jump on the bandwagon and add an investment fund tied solely to real estate?

That's a question many in Congress are wrestling with.

The answer is a no-brainer, says the trade association representing companies that own, operate and finance income-producing real estate such as apartments, shopping malls and hotels. It advocates adding a TSP fund tied exclusively to those companies, called real estate investment trusts (REITs).

According to the association's analysis, REITs achieved a 13.8 percent annual return on average since 1988 when the federal retirement investment plan began. That's a much higher return than those for TSP's G Fund, F Fund and I Fund and comparable to the average returns for the S Fund and the most popular option, the C Fund. An employee who invested $10,000 in a representative sampling of TSP funds in 1988 and put 10 percent into REITs would have made nearly 7.7 percent more by 2005 than without REITs, the association said.

REITs already get some share of TSP money: real estate investment trusts are included in two of the plan's five existing funds. They comprise about 7 percent of the S Fund and about 1 percent of the C Fund. But without a dedicated REIT fund, participants would never be able to invest enough in REITs to take advantage of those higher returns, said Steve Wechsler, president and chief executive officer of the National Association of Real Estate Investment Trusts.

"Under the current plan, federal employees are unable to get the level of real estate investment exposure that a variety of experts suggest," Wechsler said, citing recommendations to invest 10 percent to 20 percent of one's retirement investments in REITs. "It's a matter of diversification and a meaningful exposure to real estate investment. That is an important detail in this discussion."

The association's arguments are fundamentally flawed, however, some critics say. The association's analysis is based on how well REITs have performed in the past, and there's no reason to believe real estate prices will continue their miraculous upward trend for another 10 or 20 years.

"As a professional, I don't advise people to have a REIT fund," said Mike Miles, a financial consultant and *Federal Times* columnist. "What they're not telling you is if you look at really long-term performance in real estate, it doesn't look anything like you would see in the last five years."

Miles said TSP participants likely would lose money by investing part of their savings in a REIT fund because, over the long term, real estate won't perform as well as the other TSP funds.

"I just can't believe that there's anybody who's trying to solely further the interest of participants who would stand up and say, 'You really need to get on the REITs bandwagon,'" Miles said.

Michael Grupe, the real estate association's executive vice president of research and investor outreach, contends real estate would hold up well regardless of what period of time you study.

"The issue of whether the real estate market has outperformed in recent years and now is a bad time to invest because it's bound to go down, I consider that to be a market timing question," Grupe said.

But latching on to a particular investment vehicle just because it's performed well isn't sound investment policy, said Gary Amelio, executive director of the Federal Retirement Thrift Investment Board, which oversees TSP.

"You're putting forth one fund and saying, 'Let's make a decision.' That's not how an appropriate fiduciary makes a decision," Amelio said. "You do an assessment of all available products and determine, if there's a material gap, what's the most appropriate product to fill it."

Adding a fund tailored around a specific industry would alter the design of TSP, which includes only broad-based funds that cover a representative sample of nearly all available investments. It's unclear what impact adding such a narrow fund would have on TSP as a whole, said James Sauber, chairman of the Employee Thrift Advisory Council, a group of union and management association representatives that advises the thrift board.

"Our view is that it's just premature until we can do a full assessment," Sauber said. "If we're going to add such a fund to the TSP, it's important we follow a process where participants and beneficiaries have a good sense that this has been looked at solely from their interests and not the interests of anybody else. We want to make sure that if you do add a fund like this, you do it in the right way."

Miles said the thrift board would be better off focusing its efforts on encouraging participants to better allocate their investments in the existing funds.

By failing to add a REIT option, however, TSP is losing ground with other big retirement funds, Wechsler said. Four of the nine largest 401(k) plans in the private sector have a dedicated REIT option, and federal employees deserve the same option, he said.

"This is about choice. No one is suggesting a mandatory investment or allocation to real estate," Wechsler said. "What is being proposed is that federal workers have the choice, and in general choice is a good thing."

FederalTimes.com

Special interest groups have targeted TSP before

By TIM KAUFFMAN

April 24, 2006

The current controversy over adding a real estate fund to the Thrift Savings Plan strikes a familiar tone with Frank Cavanaugh.

As the first executive director of the Federal Retirement Thrift Investment Board, Cavanaugh was charged with setting up the thrift plan after Congress created it in 1986.

"The ink was hardly dry on the legislation" establishing the plan when Cavanaugh said he was approached by the multitrillion-dollar housing industry, led by Freddie Mac and Fannie Mae, to add a fund tied to mortgage-backed securities.

"I told them no, and they said, 'If you don't do it, we'll get the Congress to make you do it,'" Cavanaugh recalled from his Chevy Chase, Md., home.

In an influential move, the leaders of the House work-force subcommittee at the time rejected the housing industry's efforts, Cavanaugh said. "I was overjoyed to see that, and I never would have taken the job if I thought it would be politicized."

By creating a real estate fund, Congress would be turning that precedent on its head and inviting lobbyists from every other niche market to demand their own TSP fund, he said. "It raises real fundamental organizational problems, and I think it would be very distressing to a lot of the participants."

In the beginning, Cavanaugh said he had to assuage employees' fears that the plan could be subject to political manipulation. "Congress set the thing up so that it would not be political. Legislative history is clear in that. They required all the stocks to be broad-based index funds so there wouldn't be any fund tied to any specific industry," he said.

By overriding the thrift board's objections and mandating the real estate fund be added to TSP, Congress would be circumventing the process it established to ensure the plan is free from political influence, Cavanaugh said.

"It's the first step in the politicization of the Thrift Savings Plan," Cavanaugh said.

Even though the housing industry was unsuccessful in its lobbying efforts, mortgage-backed securities eventually made their way into the TSP. In 1991, the thrift board selected a new index for the F Fund that included mortgage-backed securities. Today, those securities comprise 37 percent of the $10 billion fund.

Mr. PORTER. I would like to comment, I guess, for the record, to make it clear. I appreciated the request by the minority to have the hearing today. That request was very specific. That request was to have it regarding—a hearing regarding the advisory role of the Employees Thrift Advisory Council. That was the request, which is why we are having the hearing today. So to answer the question why we are doing it, it was a request from the minority.

And with that, Chairman Davis.

Chairman TOM DAVIS. Thank you.

Let me, since Ms. Norton has entered the Federal Times article into the record, it just shows that anything can get into the record. It is a very non-credible article, in my opinion. For example, let me just go, Mr. Chairman, to some of the things that they have talked about. Every Republican that is crucial was given a contribution of $5,000, and then they gave you $10,000. That has hardly passed through if they give—they must have invested into a REIT, I think, to get that kind of appreciation over time. The Freedom Project did the same thing. By the way, the time periods, the Freedom Project was given 5,000, and gave you $10,000, some of that money before they even gave—I mean, anyone who understands how leadership PACs operate know that leaders get money from a lot of different sources, and generally, give it out on the basis of candidates from marginal districts, not to who is going to support legislation. I have never known a leadership PAC to give out anything except with the intent of keeping their party in power. That is why they are established in the first place, and I think the writer of this article is very naive in terms of understanding how those things work.

Having said that, it is certainly the right of people to petition their government. PACs are, of course, the contributions of thousands of people who put them into one area, and it is, I don't think any mystery, that some of that would find its way to Members, some sitting on this committee, many others to Members who have nothing to do with this.

I guess what bothers me though about the way the TSP has worked this, with leaks to the press and the other things, is you destroyed any credibility you had with me. When you came in to see me originally, we were going to try to get a report back, and now, to me, it looks like you are running out the clock, that you are going to report this at the very end of this session, where it would be impossible for us to act. Do you care to—Mr. Amelio, what do you have to say about that?

Mr. AMELIO. I genuinely don't want to do that.

Chairman TOM DAVIS. When are we going to see a report?

Mr. AMELIO. Before the end of 2006, the fall.

Chairman TOM DAVIS. Yes, but we are out in October. When are we going to see a report?

Mr. AMELIO. I can't give you a date. I don't know. It depends on the length of the RFP process.

Chairman TOM DAVIS. When was the contract let for the report?

Mr. AMELIO. September 2005.

Chairman TOM DAVIS. Did you give them any time limit?

Mr. AMELIO. No. We have four steps in the process. The first step was to prepare a report on the review of the indexes, which the board is required to do. The second step is to give us a plan as to

whether we should let the contract in the way in which it has been let before, which is that the investment manager has custody in securities lending. The next step is to do the RFPs for the investment managers, and we have to get all that done by the fall of 2006 under Federal procurement law. Then the fourth and final step is once we have done with that, to look at the fund lineup and determine whether there is any material gaps in the fund, in the plan, and from there, determine whether there is any available product that would meet those gaps.

Chairman TOM DAVIS. So basically this may not be on the timeline for the committee at all this Congress?

Mr. AMELIO. We want it all completed by the end of 2006. I'm sure it will be done well before—when I say well before that, I don't know. It depends on—it's a procurement process. It's very difficult. We can't even say right now how many contracts there will be, 1, 4 or 26, and we are a small agency.

Chairman TOM DAVIS. Let's go back to October 14th, the Employee Thrift Advisory Council, in their regular meeting, where Mr. Sauber stated that he was pleased that the study of TSP investment has slowed down the train. What do you mean to slow down the train? Does this mean to stall the committee? What was conceived there, do you know?

Mr. AMELIO. I don't know.

Chairman TOM DAVIS. You don't know? I know what it means, and I wasn't at the meeting, but I understand what that means.

On January 13th, you again met with the majority and the minority subcommittee staff to discuss your plans for the study of investment options. At that meeting you stated that the study of investment options would be completed no earlier than September 2006, no later than early 2007. Apparently, the subcommittee staff didn't understand this, because at the meeting of the Federal Retirement Thrift Investment Board on January 18, 2006, you recounted the meeting with subcommittee staff and stated, "I think the one thing that I hope we got clarified was that there may have been a misunderstanding. I think there was some anticipation that we would have had all this work concluded by the end of 2005. We wanted to point out that it was indeed 2006 that we committed to do this."

Mr. Amelio, our letter clearly asked you to submit your report by January 1, 2006. Why was there a misunderstanding regarding when the study was to be completed?

Mr. AMELIO. There was a debate going on at the meeting, after the board meeting of January 2006 as to what year end we were talking about. If the letter you're talking about was the fall of 2005——

Chairman TOM DAVIS. September 2005.

Mr. AMELIO. Right. And that was the one that asked for a deadline at the end of 2005. We couldn't possibly have done it by then. We have to do contracts to hire the consultant, and then they've got to do the work on the other contracts for the managers.

Chairman TOM DAVIS. Last year at the hearing on H.R. 1578, you asked us not to act on the bill until you had an opportunity to complete a study, but if the study isn't completed until early 2007, I want you to explain to me and the members of the sub-

committee how can we possibly act on the legislation in this session?

Mr. AMELIO. We plan to have the study done by the end of 2006.

Chairman TOM DAVIS. We are set to adjourn in October. We may come back afterwards, but we are set, so basically you have run out the clock.

Now, let's turn to the ETAC meeting March 7th. On March 7th, the ETAC adopted a resolution opposing the addition of a Real Estate Investment Trust Fund. Were you at that meeting?

Mr. AMELIO. Yes.

Chairman TOM DAVIS. Were you both at the meeting?

Mr. TRABUCCO. Yes.

Chairman TOM DAVIS. Mr. Trabucco, according to your written statement, you drafted the ETAC resolution; is that correct?

Mr. TRABUCCO. That is correct.

Chairman TOM DAVIS. And the resolution was also reviewed by the board's counsel, correct?

Mr. TRABUCCO. That is correct.

Chairman TOM DAVIS. Did the board's attorneys often advise ETAC?

Mr. TRABUCCO. Yes. ETAC involved itself, for instance, in a lawsuit that we were involved in 3 years ago, and they had direct contact with our lawyer. The approach that ETAC has taken with regard to Council matters is very similar to the approach that I have——

Chairman TOM DAVIS. So the board staff had extensive involvement with the drafting of the resolution; is that fair to say?

Mr. TRABUCCO. I drafted it to Chairman Sauber's specifications, and based on the statements that were made at the earlier meetings.

Chairman TOM DAVIS. Mr. Amelio, if you are not an ETAC member, and the role of the ETAC is to provide outside advice on the TSP board and its managers, how is it that you suggested language for the ETAC resolution?

Mr. AMELIO. I wasn't submitting substantive language. They were debating one sentence, and I offered a couple of words as a matter of technical assistance. I wasn't trying to impose intent upon them. They were struggling with certain terms of art.

Chairman TOM DAVIS. Didn't you make sure that the resolution included the language you suggested, which asserts that a new fund must come from an independent process coordinated by the plan fiduciaries?

Mr. AMELIO. I may have suggested words. I didn't encourage. I was offering help. That was completely their resolution.

Chairman TOM DAVIS. That language is absolutely substantive. That is not technical, in my opinion.

Mr. AMELIO. OK.

Chairman TOM DAVIS. Coordinated by the plan fiduciaries, in fact, is a huge transfer of authority away from Congress and to you. I mean that is one of the dividing lines on this.

Mr. Trabucco, did you sometimes provide your views to ETAC members concerning what Congress intended when it enacted the FERS Act?

Mr. TRABUCCO. Yes, I do. I have the great fortune of having served on this committee and worked in the legislation that created the TSP, and I do have a box of papers going back, and I'm happy to dig through it and help them if they have questions, and also help this committee.

Chairman TOM DAVIS. As we have seen the views of what the board believes the FERS Act provides are sometimes different from what other people think. There is always controversy on that.

Mr. TRABUCCO. Well, I will say, sir, I try to go back to the law, as I did at that hearing record. If you check it, you will find we went for the precise words on the role of the board. The board's role under the law is to develop and establish investment policy. In fact, when I couldn't remember the second word, we sent somebody out of the room to get the law so that we were certain we were dealing with black letter law——

Chairman TOM DAVIS. You didn't conduct any scientific survey of Federal employees to see if they wanted to add a REIT index fund, did you?

Mr. TRABUCCO. No.

Chairman TOM DAVIS. Did you make any attempt to provide objective information or collect information from Federal employees about adding new funds before you decided that they don't need new investment options?

Mr. TRABUCCO. Do you want to talk about the survey?

Chairman TOM DAVIS. Yes or no?

Mr. AMELIO. Not yet. We're doing an extensive survey in 2006 of the participants.

Chairman TOM DAVIS. When will that survey be completed?

Mr. AMELIO. I'm hopeful that—we've committed to have it finished by the end of this year. We're working on it right now. I've hired a new product development manager, who's seated behind me, from the private sector, and we want to go out and do a full survey. We want to find out what the participants know about——

Chairman TOM DAVIS. Let me just—just to put this in perspective.

Mr. AMELIO. OK.

Chairman TOM DAVIS. The conferees for the FERS Act, which you claim to know something about, Mr. Trabucco, made reference to two separate sources of potential political manipulation, pressure from the administration on board members, who would be Presidential appointees, and pressure from Congress. This is the language. "Concerns over the specter of political involvement in the Thrift Plan management seemed to focus on two distinct issues: 1) the pressure from an administration; (2) the Congress might be tempted to use the large pool of Thrift Plan money for political purposes. Neither case would be likely to occur given the present legal and constitutional restraints."

Now, in terms of political pressure from Congress, it is clear for conferees statements at page 137, paragraphs 3 and 4, that they were concerned about the possibility of some sort of raid of the trust funds by Congress, not about Congress selecting new index funds. Do you disagree with that?

Mr. TRABUCCO. I think there were many reasons, but it wasn't index funds. You're right on that. I'm not suggesting that it is. The

next sentence is also instructive. "Board members and employees are subject to strict fiduciary rules. They must invest the money and manage the funds solely for the benefit of participants. A breach of these responsibilities would make the fiduciaries civilly and criminally liable."

Chairman TOM DAVIS. But how do you feel when REIT funds, over the last—while we have been talking about this, have gone up in a very significant way, and we have deprived Federal employees of the option of investing in that? Do you feel good about that?

Mr. TRABUCCO. I can only tell you, sir, what previous boards have done, and I've had the pleasure of serving many of them.

Chairman TOM DAVIS. The previous boards were the ones that went through computer systems that failed, with huge cost overruns coming back and everything else, and if you align yourself with that, I think I get the picture.

Mr. TRABUCCO. No. I'm telling you——

Chairman TOM DAVIS. I will yield back, Mr. Chairman.

Mr. TRABUCCO. If I might answer on investment policy. The previous boards looked at more than returns. They looked at the design of the plan, the structure of the plan, and did in toto reviews as they did from——

Chairman TOM DAVIS. But three of the options were an underlying statute. You didn't add them. They were there in the underlying statute originally.

Mr. TRABUCCO. That is correct. After 3 years of congressional study, they decided on those three.

Chairman TOM DAVIS. I yield back.

Mr. PORTER. Mr. Cummings.

Mr. CUMMINGS. Thank you very much.

Mr. PORTER. Point of order. Mr. Van Hollen.

Mr. VAN HOLLEN. Thank you, Mr. Chairman.

Mr. PORTER. My apologies.

Mr. VAN HOLLEN. Not at all.

Let me ask you, your answer to Mr. Marchant's question, Mr. Amelio, anticipated a little bit of my question, and that is have you personally, at this point in time, formed an opinion as to whether or not it would be a good or bad idea for the members of the Thrift Savings Plan to have a separate REIT option?

Mr. AMELIO. Are you asking me personally or in my—because I can only answer in my capacity as a fiduciary to the plan.

Mr. VAN HOLLEN. But with all due respect, I mean, I think it is important to understand where the head of the—you know, the executive in charge is coming from with respect to this, because if you have a—I mean, you are saying to the Members of Congress, and it is a fair point, wait for the study. But I want to know if you personally have reached a conclusion as to whether or not this is a good idea or a bad idea.

Mr. AMELIO. Well, I have grave concerns about the process. And my grave concerns are I think when this plan was created in 1986, it was ingenious, broad-based low-cost index funds. And for all the talk about what employees in the private sector get to invest in real estate and whatnot, every employee in the private sector would give anything to be in this plan with its low fees and its broad base.

My concern is if you put one single targeted industry fund into this plan, you're going to open the door to a dozen other single-industry funds and then this plan will lose the beauty of its simplicity, its low cost, and its high confidence level of the participants that it's being managed fairly.

Mr. VAN HOLLEN. I don't want to mischaracterize your answer, but, I mean, it sounds to me like you—if you were to weigh this on a 1-to–10 thing, you are pretty close to—zero being you are not in favor of it personally, and you are pretty close to zero at this point in time. Is that right?

Mr. AMELIO. I would have to be convinced——

Mr. VAN HOLLEN. I am not talking about the legislation. I am talking about do you think it is—you have formed an opinion as to whether or not it is a good idea.

Mr. AMELIO. I would have to be convinced that it is in the best interest of all the plan's participants, and I'm not there yet.

Mr. VAN HOLLEN. All right. Let me—do we have a copy, Mr. Chairman, of the contract between TSP and the consultant you have hired? Do we have a copy of that?

Mr. PORTER. Requesting for this study, correct?

Mr. VAN HOLLEN. Yes. You have no objection to providing the committee with a copy of the contract, do you?

Mr. AMELIO. Yeah, that's fine.

Mr. VAN HOLLEN. All right. And that contract, as I understand it, asks them to look at a range of different options and is, I hope, neutral in the way that it asks them to take a look at it.

Mr. AMELIO. It is absolutely—it is the entire universe of potential options. There is no limit.

Mr. VAN HOLLEN. Let me ask you with respect to the GAP report from January—I don't know if you had an opportunity to look at it—and the comments that they made with respect to the role of the ETAC. Have you had an opportunity to look at that?

Mr. AMELIO. No, I didn't in advance of this hearing, no, sir.

Mr. VAN HOLLEN. What I want—you know, we had a hearing earlier, as we all know, and after that hearing we had the opinions and the letter from the ETAC Advisory Council. And I guess one question, and this does go to the process, because one question that is raised, given your responses, is to what extent the ETAC is in fact an independent advisory board. And I am not saying this in any way to diminish the role of ETAC, but it does seem clear from the testimony that they have no independent staff. Is that right? In other words, the advisory council does not have an independent staff. Is that correct?

Mr. AMELIO. That is correct.

Mr. VAN HOLLEN. So they do rely entirely for their staff and resources on you and your staff, is that right?

Mr. AMELIO. I believe that's correct. I mean, they may use their personal association or union staffs, I don't know. But, you know, they rely on us for ETAC work.

Mr. VAN HOLLEN. But to your knowledge, do they have any outside consultant and/or expert that they rely on?

Mr. AMELIO. No. No.

Mr. VAN HOLLEN. And they rely on your attorneys, I understand, for whatever legal advice they provide.

Mr. AMELIO. Yes.

Mr. VAN HOLLEN. Because the question is—I mean, this letter is sort of presented in the sense that there has been an independent—at least, I think that is the perception up here—an independent group that has its own sort of resources independently looked at this. But I guess, given the nature of what happened and the fact that the drafting of this resolution was actually done by your staff, would it be fair to say they are not a—they don't have their own resources to act independently of the board?

Mr. AMELIO. Yeah. Can I refer to——

Mr. TRABUCCO. May I answer that, Congressman? As the individual secretary to the council, I attached to my testimony the document that created the council, the charter of the council. And that charter is consistent with the Federal Advisory Committee Act. The way that act works is the committee, or the agency that is receiving the advice from the outside independent group, provides staff support to that outside independent group. The notion is that there is a benefit to the agency receiving the advice and that the outside group should not have to pay for providing that advice. In other words, we provide, just as I have for this committee on technical drafting services, that technical——

Mr. VAN HOLLEN. Right, but you don't provide them any resources to pay for advice outside yourself, right?

Mr. TRABUCCO. No. That is correct.

Mr. VAN HOLLEN. I raise this because, you know, during the process of putting together this legislation, people sought the input. As I mentioned in my opening statement, one of the people we asked was AFGE, American Federation of Government Employees, lots of Federal members. And I am just going to read the response that we received back from them during that process.

"On the REIT legislation, we will not oppose it. We are meeting with the Thrift Investment Board employee groups in mid-April"—this is dated March 2005—"in mid-April to learn more and see if we can support the legislation."

What I am getting at is to what extent these advisory council members have people asked advice from, whether their main source of advice is from you. And I think it is important they get advice from you, but it is pretty clear that is their main source of advice. So I don't think it is a great surprise, is what I am saying, I guess, to find out that they would take this position.

Let me end with that, Mr. Chairman, because I think, you know, it is important that we had this hearing, and I want to thank the chairman for holding it. I think it is important that we move forward in a smart way. I also think it is important, as others have said, that we not forego the opportunity for Federal employees to have this opportunity, which is why it concerns me a little bit that even if people at the outset of this process, members of your board, were objective about it, given all that has happened and your comments in the transcripts, whether at the end of the day, given the report, whether all of you can see this, put aside what has happened and reach and independent decision, and sort of put aside your preliminary conclusions.

Thank you, Mr. Chairman.

Mr. PORTER. Thank you. Mr. McHenry.

Mr. MCHENRY. Mr. Chairman, thank you so much. Let me start by saying——

Ms. NORTON. Mr. Chairman, could I beg the indulgence of the——

Mr. PORTER. Not at this moment.

Ms. NORTON. Could I just ask the member if I could, because I am about to leave, if I could just clarify——

Mr. MCHENRY. Actually, I have something that maybe you would like to hear first. You know, I think it is disgraceful for a member of this committee to impugn 163 Members of Congress for simply sponsoring this bill. I think that is really a harmful thing to this whole process to say that those that sponsor this bill did so for some financial gain. I think it is a very harmful thing.

Ms. NORTON. Then I am going to have to ask to respond to that. What I was about to say is not——

Mr. MCHENRY. It obviously——

Ms. NORTON. I indicated—I indicated——

Mr. MCHENRY. I am not yielding. I am not yielding.

Mr. PORTER. Excuse me. The gentleman——

Ms. NORTON. Well, I am going to have to ask for a point of personal privilege, though.

Mr. MCHENRY. Mr. Chairman, I will say—actually, I have the time right now, if the gentlelady will let me continue. I will just say that is a very harmful thing, Mr. Chairman, to this whole process. The reason why I think this is a very useful option is, in North Carolina, having served in the legislature there, the North Carolina retirement system has a real estate—pretty substantial real estate investment to the overall State employees retirement plan. And as someone who was involved in real estate before I got into politics to actually make a living—heaven forbid, a politician to make a living outside of the Government—but before my service here, I think it is a wonderful opportunity for individuals to invest and make a better return or a different return than just a narrow-based—well, the simple offerings that we currently offer through the TSP. And as someone who invests in the TSP, because I do appreciate the value it brings, and I especially like the match, I think it is a wonderful thing. And we should offer more opportunities to expand that reach.

And so, you know, let's look at a couple of things. First of all, according to Barclays Global Investors, the current manager of the TSP Index Fund—right—it says, "Investors who rely on broad cap equity benchmarks for real estate exposure are not achieving meaningful allocations to the asset class." This is what Barclays published in their Investment Insights in September of last year. It is saying that you are not giving a meaningful exposure to real estate through the TSP plan.

And what I would say is that we can go back to the question that you asked of the consultant. What did you pose to the consultant in terms of the bid proposal you put out? What was the request you had of the consultant?

Mr. AMELIO. They are going to look at the existing fund line up and determine if there is any material gap. Then they are going to go out and look at all available options, everything—they're not

going to exclude or hide anything—and determine whether something should be put in.

Mr. MCHENRY. Material gap. You know, in the—there are five funds, correct?

Mr. AMELIO. Yes. Yes.

Mr. MCHENRY. They are widely diversified.

Mr. AMELIO. Yes.

Mr. MCHENRY. So there is a little bit of everything in that one fund, in each fund in those particular areas. Small cap fund is widely diversified within small caps.

Mr. AMELIO. Well, let me—in the two domestic equity funds, we've got the entire domestic equity market. But if you were to look at the bond fund, you know, there might be something there that's missing. If you look at the international fund, that is only developed nations. There are no emerging markets. Emerging markets are the small countries, more Third World—much higher risk, but room for a lot of growth.

Mr. MCHENRY. I would say that the question you asked this consultant to answer is innately flawed. What is the material gap? OK? If you have a widely diversified—one widely diversified fund that has a little bit of everything around the world, that would suffice to answer the question you posed to the consultant. So you did not ask the question, would real estate investment trusts be a viable and positive option for Federal employees to have within their investment portfolio.

Mr. AMELIO. Why would I ask that question? The question——

Mr. MCHENRY. Because that was the request of the chairman of this committee and the chairman of not just the subcommittee, but of the entire committee; the ranking Democrat both of this subcommittee and the full committee.

Mr. AMELIO. The question I asked is one that every fiduciary of every plan asks. And the reason is that why would I limit it to just a REIT? REITs are included in the request. They're included with every other possible option.

Keep in mind, the plan's participants are paying for this study. It's not taxpayer funded. The committee didn't say we're going to give you money to go hire a consultant to look at REITs. The committee said we would like to see you do this, when are you going to do it, what are you looking at? And we're expending the participants' money, and as fiduciaries, we have a duty to expend that money wisely.

Mr. MCHENRY. Yes, and my point is, the question that was posed from this committee was should—this was the request: Do you think it is a viable option for people to have another fund that has real estate exposure?

Mr. AMELIO. It had to be—the question had to be worded wisely—widely, or broadly. Otherwise, why wouldn't I ask the question, do you think we should have real estate? Do you think we should have emerging markets? Do you think we should have TIPs? You could answer yes or no to all of those and where would we put an end to the questions? It wouldn't be appropriate to just ask about REITs.

Mr. MCHENRY. Well, a material gap would say you omit from the whole gross domestic product of the whole United States, and real

estate is a nice sizable chunk of that; and if you have your 2 percent exposure to that marketplace, which you currently do through—I believe you have 1 percent in the C Fund and maybe up to 8 with the S Fund, and that is the only real estate exposure right now—that would actually suffice to answer your question whether or not there is a material gap, because you at least have some, though it is a small inkling, of exposure to real estate in the overall TSP plan.

So the consultant will—I would predict, I mean, Mr. Chairman, I don't want to go well beyond my time here, but I would say that based on the way you posed the question, the consultant's natural answer would be no, you do have real estate exposure, therefore that is not a material gap. Which I think is a very limiting way to focus on this when we are asking, in particular, whether or not the Federal employees should have this opportunity—only opportunity—opportunity to invest in real estate.

Mr. AMELIO. Can I answer?

Mr. MCHENRY. Go ahead. I am just offering my prediction here at the end of my time.

Mr. AMELIO. Material gap is a much broader question than just "do you have representation?" They want to look at the fee structure, they want to look at the percentage and proportion of assets held. They might determine that we've got to break out and go to value and growth methods of equity. There's a whole variety of things. It's not just "do you have the U.S. equity market covered?" It's a rather detail-oriented question. And it's the same question every fiduciary asks. I think it would be a blatant breach of duty if I didn't ask the question in that way.

Mr. PORTER. Congresswoman.

Ms. NORTON. Mr. Chairman, a personal attack on me is no more justified than one would be justified had I personally attacked the Members who had signed on to this bill. I could hardly have done so. I began by saying my own minority leadership had signed on to the bill, that the members of this committee had signed on to the bill, and that in fact, at our subcommittee hearings, there was bipartisan, on-the-record approval pending, of course, a study for this matter. So it ought to be clear that there was no attack on the chairman or anybody else. The chairman has run this committee in a bipartisan way. The lobbyists may have rushed forward in order to reward people who never even asked for a contribution. So let the record show what was actually said and let us not have attacks on one another, particularly since I think my remarks were clear in not doing that.

I do want to clarify what I have offered for the record, a Washington Post article, three Washington Times articles, an article from Govexec.com.

And finally, as I leave—I hope to get back here—I just want to say to Mr. Amelio, I indicated before that I think you have brought much of this on yourself, sir. And I say so because it seems to me when you heard the approval of REITs at our subcommittee hearing across the board on both sides of this aisle, particularly if you had the doubts you now put on the record in answer to Mr. Van Hollen's questions, the very first thing you should have done was to get that study going as fast as you could and get it before the

Members. By not doing so, you have laid the basis for the very hearing that is taking place here today, the doubts that are now in the papers. So you must share the problems with the lobbyists who are involved. Because as long as that record was left blank, something was going to come in to fill the gap. And what has come in to fill the gap is, well, the lobbyists wanted it; so all of us who have spoken out that we didn't know why employees couldn't get the benefit of this must be in hock to the lobbyists.

And I thank you very much for the opportunity to reply.

Mr. PORTER. Thank you.

Ms. NORTON. I hope my good friend understands that I mean no disrespect to him for going on to the bill or for anybody who went on to the bill. I have to believe that he shared with me the feelings at that hearing we had when we got no answers to why in fact people shouldn't in fact have REITs as an option. I, for one, am still waiting for those answers.

And I thank you, Mr. Chairman.

Mr. PORTER. Thank you, Congresswoman. I appreciate your comments.

Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman.

I just want to—your job, you just talked a little earlier about the fiduciary duty. That job is to do what is in the best interests of the people who are part of the TSP. Is that correct?

Mr. AMELIO. Under the statute, it is the sole interest of the participants and their beneficiaries, yes.

Mr. CUMMINGS. And when it comes to doing that, you are trying to figure out, I guess, part of carrying out that duty would be to try to figure out how do you get maximum dollars in as safe a way and as sound a way as you possibly can with as little reasonable risk as possible. Is there something else I am leaving out there?

Mr. AMELIO. And at a low cost. That's also in the statute.

Mr. CUMMINGS. And at a low cost, yes. So in this instance, the REITs, when you consider the real estate market goes up and down and that so many have, as we have seen in the local papers, including the Washington Post reporting that we have a real estate market and that sometimes they say it is on the bubble, sometimes they say it is on the way down—talking about real estate. Is that one of your concerns? I mean, I know you are waiting for the report and all that kind of thing, but is that one of your concerns?

Mr. AMELIO. You mean about adding a REIT as a fund, is the volatility a concern?

Mr. CUMMINGS. Yes.

Mr. AMELIO. No. Because if you're an investment professional and you have some sophistication and knowledge of the markets, you recognize that those investments which are the most volatile, while they are the riskiest, will over the long term, or should over the long term, bear larger gains. That's not always the case. That is not my concern. My primary concern here is that up until now the plan has only contained broad-based, low-cost index funds. This is a narrowly focused fund into one sector, or industry, if you were, and I have concerns about the liquidity, about the fee structure, as well as if this would come in it could also open the door for other particularly narrowly focused funds.

Mr. CUMMINGS. And so, but it would provide you with additional diversification with regard to your portfolio, would it not?

Mr. AMELIO. I think that's arguable. This fund is incredibly diverse. We've got the entire universe of domestic stock as well as all of the developed international stocks and bonds. It's a very diverse fund. As long as——

Mr. CUMMINGS. Let me ask you this. You mean the fund as it is right now?

Mr. AMELIO. Yes.

Mr. CUMMINGS. OK. But I am just asking you, would the REITs add to that diversification?

I know it is very diverse; I understand that. I got that piece. So would it add to that? That is all I am asking you.

And I am not saying whether it is a great fund or—I mean, a great piece to bring in. I am just asking you would it add to the areas that you would then be able to invest?

Mr. AMELIO. I don't think so, because REITs are already included to the extent of their proportion of the overall domestic investable markets.

Mr. CUMMINGS. So what do we expect—not the results, but what, when you give the people who are doing the research the research assignment, what are they looking for?

Mr. AMELIO. Well, they know what to look for. They do this for many plans. They're going to look at what we have and they're going to look at what's out there. And they'll make a recommendation based on whether they think anything should be added.

Mr. CUMMINGS. So basically, the board's position is, as I understand it, be safe rather than possibly sorry later on? Is that reasonable?

Mr. AMELIO. It's reasonable. The term would be, the board wants to do what's prudent, and that's to hire an expert to review everything. And that's what——

Mr. CUMMINGS. That is being safe, rather than being sorry later on.

Mr. AMELIO. Yes.

Mr. CUMMINGS. OK. All right, I don't have anything. I see we are running out of time, Mr. Chairman.

Mr. PORTER. Thank you, Mr. Cummings.

We are going to go into recess. We are taking votes on the floor. I think we have three. We should probably take about, outside, 45 minutes, 30 to 45 minutes. So we will go into recess. We still have one panel, and then action after that. So we are going to be in recess.

[Recess.]

Mr. PORTER. I would like to bring the committee back to order.

For some of you that have been attending a few of our hearings, I have been requesting now for about a year that we have all these held in Las Vegas. But no one seems to listen to me. So maybe next time we will meet in Las Vegas, and everyone will be welcome.

Mr. DAVIS OF ILLINOIS. I second that.

Mr. PORTER. And it is seconded by our ranking member, Mr. Davis.

Thank you all for being here. I appreciate your patience and understanding. I would like to announce that Chairman Davis has re-

quested that action be taken at the full committee. And we are going to continue with the hearing today, but I would like to make that notice known for those that are in the audience.

Also would like to say thank you to our last two panelists, who are still here. Thank you very much. Appreciate what you are doing. Also understand that you have a tough job and know that the purpose of our hearing is to do the best we can for all of your colleagues and Federal employees.

So with that, we do have James Sauber, who is chairman of the Employee Thrift Advisory Council, and then Richard Strombotne, who will be second.

So we begin with Mr. Sauber. We appreciate your being here.

STATEMENTS OF JAMES W. SAUBER, CHAIRMAN, EMPLOYEE THRIFT ADVISORY COUNCIL; AND RICHARD L. STROMBOTNE, EMPLOYEE THRIFT ADVISORY COUNCIL MEMBER

STATEMENT OF JAMES SAUBER

Mr. SAUBER. Thank you, Mr. Chairman. Thank you, Congressman Davis and members of the subcommittee, for this opportunity to present the views of the Employee Thrift Advisory Council on the proposed addition of a real estate investment fund to the Thrift Savings Plan.

My name is Jim Sauber. I'm the chief of staff to the president of the National Association of Letter Carriers, William H. Young, and I serve as chairman of the Employee Thrift Advisory Council. I have been actively involved with the council since its creation in 1987. ETAC is comprised of 15 organizations that collectively represent 2.6 million active and retired Federal employees.

I'm here today to explain why ETAC took the unusual step of adopting a resolution in opposition to the proposal to create a REIT fund for the TSP. It's unusual because, historically, the Congress, the Thrift Board, and ETAC have worked together to enact numerous improvements in the plan, whether it was the creation of the S&I funds or the elimination of the need for open seasons, we generally supported legislation designed to improve the TSP, which I am certain is the intention of H.R. 1578.

It gives nobody on the council pleasure to oppose a proposal that many of you have cosponsored. This subcommittee and Chairman Davis's full committee have a long history of bipartisan cooperation on matters affecting the TSP. I know that you and your colleagues believe that a REIT fund would be a good option for Federal employees who participate in the plan. But with all due respect, the members of the ETAC have not reached that same conclusion, at least not yet. There are two major reasons for this.

First, we are reluctant to support the legislative addition of a REIT fund over the unanimous objection of the TSP's fiduciaries, the members of the Federal Retirement Thrift Investment Board. We believe this would set a bad precedent for the consideration of future new funds. Such a precedent is important because, in our view, the addition of one sector fund will leave groups representing other sectors to seek equitable access to the TSP. The investment policy of the TSP would become more politicized, the cost and com-

plexity of the plan could increase, and participation rates could suffer.

Second, we are equally reluctant to add a new fund option to the TSP, whether it's a REIT fund or any other kind of fund, before a complete and independent analysis of its merits is undertaken. The strong performance of REIT equities in recent years has resulted in the inclusion of more REITs in the equity indices that the C and S funds track, but we are not certain that this success warrants the creation of a special fund just for 170 or 180 REIT companies that are included in those indices.

Before a decision is made, the TSP's fiduciaries and independent experts should thoroughly study the issues involved. As you know, the board has hired an investment consulting firm, Ennis Knupp, to do a comprehensive review of the TSP's investment options. I can assure this subcommittee that, should Ennis Knupp recommend the addition of a REIT fund to the TSP, the members of ETAC would certainly reconsider our position.

In my written testimony for this hearing, I have summarized ETAC's discussions about the REIT fund proposal over the past 2 years. These discussions took place during four meetings of the council during November 2004 and March 2006, and included several meetings individually as unions and as a group with the National Association of Real Estate Investment Trusts. The resolutions we adopted on March 7th reflect the concerns raised by members of ETAC during this time.

In addition to the two major concerns I raised earlier, I want to emphasize that the council members believe that adding a sector fund like a real estate fund to the TSP could fundamentally alter the structure of the plan, which is designed around broad-based index funds. Before we take this major step, we should pause to consider its full ramifications, because once you open the TSP to one sector, it will be difficult to deny other sectors equal treatment.

I would like to conclude with two final points. First, Our view is that both Congress and the Thrift Board share responsibility for the Thrift Savings Plan's investment policies. The FERSA law clearly gives the five Presidential appointees of the Thrift Board a role in developing and establishing investment policy for the TSP. Any changes in that policy, however, must be enacted by Congress. In adopting our resolution, ETAC is not arguing that Congress cannot change the investment options on its own. However, we do think the TSP works best when Congress and the board reach a consensus before making any significant change in the law. We urge you to keep this in mind as you contemplate further action on H.R. 1578.

Second, if the subcommittee decides to adopt this bill today, I want to offer the assistance of ETAC to you and the other members of the full Government Reform Committee as the debate over this legislation proceeds. It is our hope that we can help build the consensus, which unfortunately does not exist today, on any new legislation that might emerge.

The organizations that make up ETAC, the members of the Thrift Board, and the members of both the subcommittee and the full committee share the same goal, to help millions of hardworking Federal employees prepare a decent and secure retirement and to

maintain that the TSP is the most successful retirement savings program in the country.

Thanks again for this opportunity to testify. I will be happy to answer any of your questions.

[The prepared statement of Mr. Sauber follows:]

Testimony of James W. Sauber, Chairman of the Employee Thrift Advisory Council to the House Sub-Committee on the Federal Workforce and Agency Organization regarding "Adding a Real Estate Investment Trust (REIT) Index Option to the Thrift Savings Plan: Considering the Views and Advisory Role of the Employee Thrift Advisory Council (ETAC)"

April 26, 2006

Thank you Chairman Porter and Members of the Sub-Committee for this opportunity to present the views of the Employee Thrift Advisory Council about the proposed addition of a Real Estate Investment Trust (REIT) index fund to the federal government's Thrift Savings Plan.

My name is James Sauber. I am the chief of staff to the President of the National Association of Letter Carriers, William H. Young, and I serve as chairman of the Employee Thrift Advisory Council or ETAC. ETAC was created by the Federal Employees Retirement System Act of 1986 (FERSA) to advise the Federal Retirement Thrift Investment Board on the operations and investment policies of the Thrift Savings Plan (TSP).

I have been actively involved with ETAC and the TSP since its creation in 1987. In fact, I have attended virtually every ETAC meeting over the past 19 years, first as an aide to ETAC's first Chairman, former NALC President Vincent Sombrotto, and then as NALC's designated representative on the Council. I was elected to serve as ETAC's chair in September 2003.

The Advisory Council is comprised of the designated representatives of 15 organizations identified by the FERSA law (as amended). I have attached a roster of the current members of ETAC to this testimony. As you will see, my colleagues and I represent the full range of federal employees -- active and retired, postal and federal, civilian and military -- who participate in the TSP.

ETAC is structured like many other federal government advisory councils. In this case, it is designed to give the top management of the Thrift Board direct input and feedback on issues related to the workings of the Thrift Savings Plan. Under our charter, the Board's staff provides administrative assistance to the Council in order to facilitate our meetings and to aid our organizations in the performance of our function. In practice, that has meant working with the Board's Director of External Affairs, a position that has been held by Thomas Trabucco since the creation of the TSP. But it has also included interaction with the Board's legal staff from time to time.

The ETAC Resolution

I am here today to explain why the Employee Thrift Advisory Council took the unusual step of adopting a resolution in opposition to the proposal to add a REIT Index Fund to the TSP. It is unusual because, historically, the Congress, the Thrift Board and ETAC have worked together to enact numerous improvements in the TSP. Whether it was the creation of the S and I Funds or elimination of the need for Open Seasons, we have supported nearly every bill ever presented to Congress designed to improve the TSP.

I want to say at the outset that it gives nobody on the Council pleasure to oppose a proposal that you and many of your colleagues in Congress have co-sponsored. This Sub-Committee and Chairman Davis's full Committee have a long history of bi-partisan

cooperation on matters affecting the TSP. This cooperation has led to steady improvements in a vitally important benefit program for federal employees. I know that you and your colleagues believe that a REIT Fund would be good for federal employees who participate in the TSP. That being said, the members of ETAC have not yet reached the same conclusion. There are two major reasons for this.

First, we are reluctant to support the addition of a REIT fund over the unanimous objections of the TSP's legislated fiduciaries -- the members of the Federal Retirement Thrift Investment Board. We believe this would set a bad precedent for the consideration of future new funds. Such a precedent is important because, in our view, the addition of one sector fund will lead groups representing other sectors to seek "equitable" access to the TSP's pool of investment capital. The investment policy of the TSP would become more politicized, the cost and complexity of the TSP would increase and the participation of federal employees in the TSP would likely suffer.

Second, we are equally reluctant to add a new fund option to the TSP, whether it's a REIT fund or any other kind of fund, before a complete and independent analysis of its merits is undertaken. In the case of REITs, we know that returns on REIT shares have been excellent in recent years. Indeed growth in the sector has led to a growing number of REITS in the S&P 500 and the Wilshire 4500, which means TSP participants increasingly are already benefiting from them by investing in the C and S Funds. But that success may not necessarily warrant creating a special fund for just 170-180 REIT companies that are included in the 5,000 companies that make up those indices.

REIT funds are a relatively new option for defined contribution retirement plans. Indeed, most private sector 401(k) plans do not offer them. The vast majority of REIT funds have been created in the past 5–10 years and only 10-15 percent of 401(k) plans offer a REIT fund at present (according to widely available surveys). And while a number of well-known, large companies have added a REIT fund to their 401(k) plans in recent years, those plans tend to offer 10, 15 or even 20 different investment options that are much narrower in scope than the five broad-based index funds offered by the TSP. In such private plans, a REIT fund might make sense. We are not sure that is the case with the Thrift Savings Plan.

Before a decision is made, the TSP's fiduciaries and independent experts should thoroughly assess these and other relevant factors as well as the results of the research commissioned by the National Association of Real Estate Investment Trusts (NAREIT) that was presented to this Sub-Committee a year ago.

I can assure this Sub-Committee that should the Thrift Board's Investment Consultant recommend the addition of a REIT fund to the TSP after a thorough study, the members of ETAC would certainly reconsider our position.

Process and Information

The discussions of the Council concerning the proposal to add a REIT Fund to the TSP began long before Chairman Porter introduced H.R. 1578. In our March 24, 2004 meeting, I reported that I had been contacted by NAREIT about the idea of a REIT Fund in the TSP and that other members of the Council had been contacted as well. Although trade associations had often lobbied Members of Congress and the Thrift Board in the

past, it was the first time in my memory that such a group had directly contacted members of ETAC. Nevertheless, I expressed a willingness to listen to what they had to say.

At our November 9, 2004 meeting, I offered to set up a group meeting for interested members of ETAC with NAREIT's representatives. That meeting was held on January 14, 2005 and was attended by members from the American Federation of Government Employees, the American Postal Workers Union, the Department of Defense, Federally Employed Women, the National Association of Letter Carriers, the National Association of Postal Supervisors, NARFE, the National Federation of Federal Employees and the Senior Executives Association. We listened to NAREIT's presentation and asked a lot of questions.

At my request, the Thrift Board distributed its January 2005 staff analysis of the NAREIT presentation to every member of ETAC to help inform our subsequent discussions.

At our May 4, 2005 meeting we discussed the REIT Fund proposal at some length. I reported on the statement I had delivered to the Sub-Committee for the April 19, 2005 hearing entitled "Real Estate Investment Trusts (REITS): Can They Improve the Thrift Savings Plan," which followed the introduction of H.R. 1578 on April 12, 2005. Some but not all members expressed fears that the process for setting the TSP's investment policy was being politicized by the role of NAREIT in this process.

The discussion of REITS continued at our next meeting on October 14, 2005. At that meeting Executive Director Gary Amelio reported that a Chicago-based investment consulting firm, Ennis Knupp, had been retained by the Thrift Board to perform a number of tasks, including an analysis of possible additions or subtractions to the TSP's fund offerings. We presume that this Investment Consultant will consider REIT funds in the context of its overall review of possible investment options for the TSP.

Mr. Chairman, the point I want to emphasize is that our resolution emerged after nearly two years of discussion. Over those two years, several themes emerged:

- There was a consensus that no new fund should be added to the TSP until the Plan's fiduciaries received an independent assessment;

- In the absence of new compelling information, there was little if any support among ETAC organizations for a REIT Fund;

- There was a general concern that adding a sector fund like a REIT fund might significantly contradict and effectively alter the basic plan design of the TSP, which offers broad-based index funds, and lead to the proliferation of narrow sector funds that would undermine the TSP's core strengths: its low cost and its simplicity; and

- That the Federal Retirement Thrift Investment Board and its Executive Director also opposed a REIT fund at this time.

All these themes are reflected in the resolution we adopted on March 7, 2006.

I want to conclude with one final point. Our view is that both Congress and the Federal Retirement Thrift Investment Board share responsibility for adopting changes in the TSP's investment policies. FERSA clearly gives the five Presidential appointees to the Thrift Board and its Executive Director the role of developing and establishing the investment policy of the TSP. Any changes in that policy, however, must be enacted by Congress. In adopting our resolution, ETAC is not arguing that Congress cannot change the investment options on its own. However, we do think that the TSP works best when Congress and the FRTIB reach a consensus before making any significant change in the law. We urge you to keep this in mind as you contemplate further action on H.R. 1578.

Thank you for the opportunity to present our views to this hearing. I would be happy to answer any of your questions.

Mr. PORTER. Thank you very much. We appreciate your testimony. And you said it quite well, we share the same goal. Thank you for stating that.

And certainly we appreciate the views of all Federal employees and organizations. In that vein, I would like to ask unanimous consent to enter into the record a letter we received today from the National Air Traffic Controllers Association, which is endorsing the legislation. And I just will summarize it, that "we are writing to express our thanks for your continuing efforts to provide participants in the Federal Thrift Savings Plan with additional investment options. The more than 20,000 Federal employees who make up the NATCA want and deserve the opportunity to diversify their retirement savings beyond the limited options that are currently available. NATCA believes that the TSP should offer retirement savings options at least as good as those found in the leading private sector defined contribution plans. Employees in large 401(k) plans in the private marketplace are offered far more than five core investment options from which they can chose to diversify their retirement savings. Our members deserve no less. We think that H.R. 1578 is an important first step in offering our members additional investment choices. Traditional pension plans have allocated substantial funds to the commercial real estate investment as a discrete asset class and our members, along with TSP participants, should have the same freedom to do so. NATCA is pleased to lend its support to this important legislation. We thank you for your leadership in providing TSP participants additional flexibility in planning."

So without objection, so ordered.

[The information referred to follows:]

National Air Traffic Controllers Association
AFL-CIO

April 26, 2006

The Honorable Jon C. Porter
Chairman
Federal Workforce and Agency
Organization Subcommittee
B-373A Rayburn House Office Building
Washington, D.C. 20515

The Honorable Danny K. Davis
Ranking Member
Federal Workforce and Agency
Organization Subcommittee
B-373A Rayburn House Office Building
Washington, D.C. 20515

Re: Hearing on H.R. 1578

Dear Representatives Porter and Davis:

I am writing today to express my thanks for your continuing efforts to provide participants in the Federal Thrift Savings Plan with additional investment options. The more than 20,000 federal employees who make up the National Air Traffic Controllers Association ("NATCA") want and deserve the opportunity to diversify their retirement savings beyond the limited options that are currently available.

NATCA believes that the TSP should offer retirement savings options at least as good as those found in the leading private sector defined contribution plans. Employees in large 401(k) plans in the private marketplace are offered far more than five core investment options from which they can choose to diversify their retirement savings. Our members deserve no less.

NATCA believes that H.R. 1578 is an important first step in offering our members additional investment choices. Traditional pension plans have allocated substantial funds to commercial real estate investments as a discrete asset class, and our members, along with other TSP participants, should have the same freedom to do so.

NATCA is pleased to lend its support to this important legislation, and we thank you for your leadership in helping to provide TSP participants additional flexibility in planning for their retirement.

Sincerely,

Ruth E. Marlin
Executive Vice President

Mr. PORTER. Next, Mr. Strombotne, an Employee Thrift Advisory Council member. Welcome. Thank you.

STATEMENT OF RICHARD STROMBOTNE

Mr. STROMBOTNE. Good afternoon, Chairman Porter and Congressman Davis and members of the committee. For the record, I'm Richard L. Strombotne. I live in Gaithersburg, MD. I'm the nominee of the Senior Executives Association to the Employee Thrift Advisory Council, and I'm serving my second term on the council. I'm testifying as an individual and not as a representative of any organization to which I belong.

You have my prepared testimony, and so I'll offer some of its highlights here. It's fairly lengthy. I have included some suggestions for improvements in the Thrift Savings Plan, so I hope you will give it your consideration.

It's a distinct pleasure to be here and have the opportunity to discuss the resolution recently approved by the council and my support of that resolution. I retired in August 1996 from the Federal service after 34½ years, most of it as a member of the Senior Executive Service. In 1979 I became a charter member of the SES, and a year later, I joined the Senior Executives Association when it was being formed. I served on the board of directors for 8 years, was acting president for 3 months, and chairman of the board for a year.

While the legislation establishing the Federal Employees Retirement System was under consideration in the mid-1980's, I chaired SEA's task force on retirement issues. This task force recommended a number of policy positions for the SEA, many of which the SEA adopted.

One such recommendation was to permit the CSRS to contribute up to 5 percent of their pay to the new Thrift Savings Plan. As you know, this feature ultimately was included in the FERS legislation. And as they say, success has many fathers. I consider myself fortunate to be one of the many fathers of the Thrift Savings Plan.

Now, right around 2000, I was asked to serve on the ETAC as the SEA nominee. I accepted the nomination and subsequent appoint with pleasure. I serve as a volunteer. I receive no compensation from the Senior Executives Association or any other organization or individual for providing my time, energy, and judgment to serve on the council. I bring to the table the sum of my experiences as a Federal employee, a senior executive, a retiree, and an advocate for retirees and my fellow citizens. As such, I exercise my independent judgment about the issues that come before the council—even as you do, I'm sure.

Early in 2005, I received—I attended a briefing by representatives of NAREIT regarding the potential benefits of including a REIT index fund. The briefing suggested that including that index fund would offer TSP participants the opportunity for greater investment return. After looking into the matter further—and this is described more fully in my prepared testimony—I became skeptical of the conclusion and the way it was presented.

Earlier this year, Jim Sauber, at my right, chairman of the council, proposed the resolution that's the focus of this hearing. After reviewing it, I decided to support that resolution. It was thoroughly

discussed at the council meeting, revised somewhat, approved by the council with the sole exception of the representative of the Department of Defense, who abstained from voting. And you've heard the explanation for that.

Before giving my reasons for not suggesting—pardon me, for supporting the resolution, let me correct a misunderstanding that I heard in your earlier statement, Mr. Chairman. At the time of my vote in early March, the Senior Executives Association had taken no position on the resolution. So let me point out the statement in Carol Bonasaro's letter of April 4th, which I believe is one of the exhibits, about 4 weeks after my vote: "SEA has full confidence in the ETAC representative we have recommended, and we trust him to exercise his independent judgment on matters coming before ETAC that impact the Thrift Savings Plan." I certainly appreciate that from Carol Bonasaro.

Now, the reasons for support. I thought it was premature to pick out a REIT fund as the next investment option for the Thrift Savings Plan in the absence of an analytical comparison with other potential options. There are other options that may be even more attractive for addition to the Thrift Savings Plan than a REIT index. And some of these are listed in my prepared testimony. You'll see that recently a number of EFTs—exchange traded funds, ETFs, have been doing better than real estate, and that is included in my prepared testimony.

Next, I have concerns about including a REIT index at a time when real estate may be entering a down market. I know that's a personal opinion, but I've been around long enough to see both booms and busts in real estate, and I'm concerned that it would be very easy for a person to make a big allocation to the REIT index fund because it's hot, and then take a big loss when the real estate market drops.

And finally, in my review of the resolution, in going over each of the whereas clauses, I agreed with each of them and agreed to support the resolution.

If the board study of potential investment options for the Thrift Savings Plan concludes that Federal employees and retirees would benefit by including additional funds in the TSP, and if a REIT index fund is among those funds being recommended, I would be very happy to join in supporting that expansion of options. However, in my judgment it is premature to require that a REIT index fund be offered absent the analytical examination of the full range of options.

And that completes my testimony. I appreciate your hearing me. I would be happy to respond to any questions that you may have, either on what I've just said or on the prepared testimony.

[The prepared statement of Mr. Strombotne follows:]

Testimony of Richard L. Strombotne
before the
Committee on Government Reform
Subcommittee on Federal Workload and Agency Organization
April 26, 2006

Hearing regarding
"Adding a Real Estate Investment Trust (REIT) Index Option to the Thrift Savings Plan: Considering the Views and Advisory Role of the Employee Thrift Advisory Council (ETAC)"

Good Afternoon, Chairman Porter and members of the committee. For the record, I am Richard L. Strombotne. I live in Gaithersburg, Maryland. I am the nominee of the Senior Executives Association to the Employee Thrift Advisory Council (ETAC) and I am serving my second term on the Council. I am testifying as an individual and not as the representative of any organization to which I belong. The views I offer are my own, though I hope and expect that others share them.

It is a pleasure to be here and have the opportunity to discuss the resolution recently approved by the ETAC regarding legislation to include a real estate investment trust (REIT) index fund as a part of the Thrift Savings Plan (TSP) and my support of that resolution.

I believe I owe you some information about my background so you can put this testimony into context. I retired from the National Highway Traffic Safety Administration, U.S. Department of Transportation, in August, 1996, after 34 ½ years of federal service, most of it as a member of the Senior Executive Service (SES).

In 1979, I became a charter member of the newly established SES. In 1980, I joined the Senior Executives Association (SEA) as a charter member. I subsequently served on the Board of Directors of SEA for eight years. I was acting president for a 3-month period and chairman for a year. While the legislation establishing the Federal Employees Retirement System (FERS) was being considered in the mid-1980s, I chaired SEA's Task Force on Retirement Issues. This Task Force recommended a number of policy positions for the SEA regarding the FERS legislation, many of which the SEA Board adopted. One such recommendation was to permit CSRS employees to contribute up to five percent of pay to the new Thrift Savings Plan. As you know, this feature ultimately was included in the FERS legislation. I am proud of the role played by SEA in helping to form this important legislation. This activity was the origin of my interest in, and involvement with, retirement issues. Incidently, I was among the group of CSRS employees who switched to FERS in the first open season in 1987.

Because of my early involvement with the legislation establishing FERS and authorizing the TSP, I have been particularly pleased to see how it has evolved over the years. There is no need

to recapitulate that evolution except to note that at the start, participants could choose from only three funds, they could only change their contribution targets and fund allocations on set schedules, the amounts of contributions were limited to 10 percent of pay for FERS employees and 5 percent for CSRS employees, and only civilian employees could be participants. Now, every aspect has changed so that participants have more options with greater flexibility in their contribution amounts, choices of funds, and allocation of assets. And members of the military services can also participate. This evolution is the result of Congress and the Federal Retirement Thrift Investment Board working for the best interests of federal employees, civilian and military.

After my retirement in 1996, I continued to be interested in retirement issues. I helped to start SEA's retiree chapter and served as chair or co-chair for about six years. In October, 1996, I became an active member of NARFE. I became the chairman of the FERS committee of the Maryland Federation of Chapters, NARFE, and provided training on FERS related matters to Service Officers. In the past several years, I have written a number of successful resolutions to improve FERS and the TSP that have become part of the NARFE Legislative Program. For example, one proposal is to permit civilian employees to contribute bonuses and performance awards to the TSP, just as members of the military services can.

In 2000 or so, I was asked to serve on ETAC as the SEA nominee. I accepted the nomination and subsequent appointment. As noted earlier, I am serving my second term. I serve as a volunteer. I receive no compensation, either directly or indirectly, from the Senior Executives Association or any other organization or individual, for providing my time, energy, and judgment to serve on the Council. I bring to the table the sum of my experiences as a federal employee, a senior executive, a retiree, and an advocate for retirees and my fellow citizens. As such, I exercise my independent judgement about the issues that come before the Council. The minutes of Council meetings will show that I am a proponent of making further improvements to the TSP. I offer two examples. I have proposed that the Board support legislation to permit spouse survivors to continue as owners of TSP accounts, much as spouse survivors can become owners of IRA accounts today. I have also proposed that the Board support legislation permitting the TSP to offer Roth-type accounts, just as 401(k) plans can do.

Early in 2005, I attended a briefing by representatives of the National Association of Real Estate Investment Trusts (NAREIT) regarding the potential benefits of including a REIT index fund among the investment options for the TSP. This was a very sophisticated and convincing argument, involving modern portfolio theory for asset allocation. It introduced me to the concept of the "efficient frontier." The idea is that for a given basket of investment options there is a mixture at each yield level that has minimum risk and a mixture at each risk level that has maximum yield. The briefing suggested that including a REIT index fund in the TSP would raise the efficient frontier above the reference level.

I don't intend to get too technical here, but this briefing got me interested in the idea. So I read deeply into the academic and popular literature on asset allocation and the efficient frontier. I found out some of the strengths and weaknesses of the efficient frontier concept and what the advocates and critics had to say.

I will summarize briefly some of the highlights of what I found out; highlights that are relevant here because they helped form my attitude about including a REIT index fund in the TSP.

1. The efficient frontier method uses the data of the past to make decisions about investment allocation now. In some respects, it is like steering a car by looking at where you have been. But since the future is unknowable, it may still be a very useful way to steer when there is no possible way to look ahead.
2. The efficient frontier methodology requires a great deal of historical data about different investment classes. The choice of time period for analyzing the data may have a huge effect on the results. For example, using a 3-year period can give vastly different results than a 10-year period.
3. The results coming out of the efficient frontier method can be very sensitive to small changes in some of the input data. For example, if two investment options have very similar average yields and different risk factors, small changes in the yield of one can result in big changes in their relative asset allocations along the efficient frontier.
4. There are good reasons to expect generally lower gains in the U.S. stock market in the future than in the past. In the efficient frontier context, this means that the heavy weighting of large cap stocks resulting from backward looking calculations may not be appropriate for the future.
5. The COLA- protected defined benefit part of FERS and CSRS can be considered risk-free assets for the purpose of asset allocation by TSP account holders. It can be considered the equivalent of having a large amount of assets in an inflation-protected TIPS-fund. Consequently, federal employees can take more risk with their investments in the TSP than persons who don't have those benefits can take with their 401(k) investments.

Earlier this year, James Sauber, Chairman of the Council, proposed the resolution that is the focus of this hearing. After reviewing it, I decided to support it. It was thoroughly discussed at the Council meeting, revised somewhat, and approved by the Council, with the sole exception of the representative of the Department of Defense who, most appropriately, abstained from voting.

I supported the Council's resolution for several reasons.

1. I thought it was premature to pick out a REIT index fund as the next investment option for the TSP in the absence of an analytical comparison with other potential investment options. Superficially, there are other options that may be even more attractive for addition to the TSP than an REIT index fund. For example, as recently as Monday, April 17, 2006, the Wall Street Journal reported the year-to-date gains of exchange traded funds (ETFs) with several having gains greater than that of one specializing in REITs. While the Wilshire REIT (symbol: RWR) had a gain of 7.7 percent, two emerging market ETFs, EEM and ADRE, had gains exceeding 14 percent, Gold Trust (IAU) had a gain of 15.4 percent, and Global Energy (IXC) had a gain of 12.1 percent. I don't pretend to know whether or not these would be good additions for the TSP, but I would like to have them be included in the analytical comparison of investment options. And the Board has initiated a comparison of potential investment options.

2. I have concerns about including a REIT index fund at a time when real estate may be entering a down market. Almost any day I can pick up a newspaper or magazine and read about the housing market cooling off. I have been around long enough to see both boom and busts in the housing market and in real estate in general. I have relatives and family who have been burned by the untimely onset of a housing bust. So I am concerned that it would be very easy for a person to make a big allocation to the REIT index fund because it is "hot" and then take a big loss when the real estate market drops.
3. I agreed with every statement in the "Whereas" clauses in the ETAC resolution.

If the Board's study of potential investment options for the TSP concludes that federal employees and retirees would benefit by including additional funds in the TSP, and a REIT index fund is among those funds being recommended, I would be happy to join in supporting that expansion of options. However, in my judgment, it is premature to require now that the REIT index fund be offered, absent the analytical examination of the full range of options.

Mr. Chairman and members, that completes my prepared testimony. Thank you for hearing me. I will be happy to respond to any questions you may have.

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Submitted by:
Richard L. Strombotne
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P/F: 240.632.9881
email: RLStrombotne@ieee.org.

Mr. PORTER. Thank you very much. We appreciate your testimony.

I have a few questions. Please know that these will be very reasonable questions. You are lucky you are up at this hour, not a lot earlier. [Laughter.]

Mr. STROMBOTNE. Yes, we appreciate that.

Mr. PORTER. Thank you again for being here and, as I said, we appreciate what you are doing.

Mr. Sauber, did ETAC conduct any scientific survey of all Federal employees to see if they wanted to add a REIT index to the TSP?

And let me followup with a second question. Do you have the resources to do such a study?

Mr. SAUBER. No, we haven't—we did not conduct any scientific surveys of our members. However, I think there is a misimpression about——

Mr. PORTER. I am not sure, is your microphone on? Try it one more time.

Mr. SAUBER. I'm not sure if there's been a misimpression about the role of ETAC and how we work. Our organizations are unions and associations that have elected leaders. And what I did—because we don't have the resources to do a survey of the kind that you ask about, we rely on our members to bring their experience and their meetings, their interactions with their members, with their State conventions, with their legislative conferences.

Just speaking for myself on behalf of the NALC, in the NALC we hold 50 State legislative conferences every year. Every State association has a legislative conference. We have multiple regional training sessions. At our national convention every year since 1988, we have had a Thrift Savings Plan seminar. In the course of all those years—I've been involved from day one with this Thrift Savings Plan. In the course of all those years, I can say with great confidence that members of the NALC have not indicated a desire for a REIT fund.

Now, if we did a survey of them, how they would respond, I don't know. I'm not saying I can predict exactly what our members would want or wouldn't want or to what extent they're in a position to make this judgment. I think they're relying on their union to exercise judgment for them. And so for that reason, based on that, I asked all members of the organizations in ETAC repeatedly over several meetings, are you hearing from your members? Do they want—you know, the REITS are the hot item. They're the item that are getting a lot of attention of the financial press. And every time I've asked, they said no.

That being said, I think our judgment is not really on the merits, the pro or con of REITs. We haven't made that judgment. We don't pretend to be investment experts. What we've focused on are two things: the process and the policy. We think it's not only important what funds we add, but how we add them, so that we set a good precedent for the future. And I think up to this point, it's been a good cooperation between the board, ETAC, and Congress. We've tried to reach consensus before making big changes in the law. And I think that we'd be well advised to continue down that road because I think it builds trust in the plan. It makes sure—I think

Congressman Cummings talked a bit earlier about rather being safe than sorry later.

That really is what motivates us. We're not making a judgment one way or the other on REITs. We want to have all the information. We want to know how much it's going to cost, what are the pros and cons, and we want to, frankly, test some of the very interesting information that we got from NAREIT. I went out of my way to make sure that all our members met with NAREIT. So when Congressman Van Hollen was saying earlier, is our only source of information the board, that is not the case. We went out of our way to talk to the folks who know most about this industry.

Now, should we take their presentation on faith? I don't think we'd be responsible representatives to do that. I think that's why we've asked for—we really do think it's important to have an independent review before making a final judgment. And I understand the frustration you have, this—I sat through the hearing. I understand the frustration you have about the time it's taken to get this study done. Nonetheless, despite that, I just think it would be wise for us to try to wait until we get a full understanding of these issues before we proceed.

Mr. STROMBOTNE. May I comment?

Mr. PORTER. Yes.

Mr. STROMBOTNE. After the NAREIT briefing, as a retiree I had some time available that people who are more busy don't have, and I took it on myself to go into the Internet and look up the literature associated with asset allocation. I received quite an education. I went through a lot of the pertinent literature, and I think on the back of my—at the end of my prepared statement, you will see a very short, selected bibliography. But I came away from that with a much greater appreciation of both the benefits of what is called the efficient frontier method for asset allocation, but also with an appreciation for its pitfalls.

One of those pitfalls is if you have two funds or two investment classes with very similar yields, but one has a great deal more volatility or risk than the other, small changes in the yield can lead to big changes in the proportion of assets in the optimum allocation.

And so my reading into the literature on asset allocation is what I brought with me when I decided to support the resolution, that it was just premature at this stage to pick out one particular asset class.

Mr. PORTER. Thank you.

I guess just a couple additional questions at this point. Of the five funds now in existence, didn't Congress create three of those funds without the TSP Board?

Mr. STROMBOTNE. I am sorry. I didn't hear you.

Mr. PORTER. Of the five funds that are available today, didn't Congress create three of the five without the TSP Board?

Mr. SAUBER. Yes, that is correct. When the legislation was drafted, it was created by Congress, that is correct. And the new funds were created by Congress as well.

Mr. PORTER. Thank you. I guess just one additional question. Did you understand that Congress was encouraging to have the study done as soon as possible? Was that made aware to you folks?

Mr. SAUBER. Yes. In fact, I think Congressman Davis, Tom Davis, mentioned one of our meetings where we discussed it. And I was very concerned about this issue, and that is why I asked the question to Mr. Amelio and Mr. Trabucco: Where were your discussions with Congress on this study? Because I understood the frustration and that there was concern about whether or not the study was going forward.

And when we met in October 2005, I was under the impression that, based on their August 11th letter, there had been some meeting of the minds about how you were going to proceed. And I learned by the end of the year, certainly by the beginning of 2006, that certainly had broken down.

So we were aware of it, and we were under the impression that you had reached some sort of accommodation. That clearly did not happen.

Mr. PORTER. Thank you.

Mr. Davis.

Mr. DAVIS OF ILLINOIS. Thank you very much, Mr. Chairman. Before I ask any questions, I have a number of letters from various associations and organizations that I would like to ask be submitted for the record in opposition to passage at this time, from the American Federation of Government Employees, the National Treasury Employees Union, the American Postal Workers Union, the Federal Managers Association, the National Association of Letter Carriers, and the Senior Executives Association. If these could be submitted for the record, I would appreciate that.

Mr. PORTER. No. [Laughter.]

Without objection, certainly. But these are all ETAC members, correct?

Mr. DAVIS OF ILLINOIS. Yes.

Mr. PORTER. Thank you.

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

Mr. PORTER. Caught you, didn't I?

Mr. DAVIS OF ILLINOIS. Yes.

[The information referred to follow:]

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO

John Gage
National President

Jim Davis
National Secretary-Treasurer

Andrea E. Brooks
National Vice President for
Women and Fair Practices

8d/217157

March 27, 2006

The Honorable Jon Porter
Chairman
House Government Reform
Subcommittee on the Federal Workforce and Agency Organization
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Porter:

On behalf of the American Federation of Government Employees, AFL-CIO, I am urging you to oppose H.R. 1578, a bill to add a real estate investment trust (REIT) fund option to the Thrift Savings Plan (TSP), when your subcommittee considers the bill in April.

AFGE is opposed to H.R. 1578 because we are concerned that the addition of a REIT fund option would adversely affect many of the important characteristics of the TSP that have made it such a success. For example:

(1) To minimize risk to TSP participants, Congress established five secure investment fund options – four of which are broad-based index funds that invest in private-sector securities in multiple sectors of the economy. (The fifth investment fund option invests exclusively in U.S. Treasury securities backed by the full faith and credit of the United States.) But the addition of a narrow-based REIT fund that invests in a single sector of the economy – commercial real estate – would increase TSP participant risk, particularly if Congress continues to allow TSP participants to place all their contributions in one investment fund.

(2) The four TSP index funds have significantly lower administrative costs than actively-managed investment funds. But, as Gary Amelio, Executive Director of the Federal Retirement Thrift Investment Board, pointed out at your subcommittee's April 19, 2005 hearing, the addition of a REIT fund option would likely increase TSP participants' inter-fund transfers, thereby complicating the administration of the TSP and increasing TSP administrative costs.

In addition, AFGE is opposed to H.R. 1578 because we are concerned that adding an investment fund dedicated to a single, narrow sector of the economy – commercial real estate - would violate the intent of the Federal Employees Retirement System Act of 1986 to authorize investments in broad-based index

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funds that cut across the major sectors of the economy. Such a violation would set a dangerous precedent – resulting in other narrow, private-sector interests lining up at Congress's door asking to be given the same treatment as the commercial real estate industry.

Proponents of H.R. 1578 argue that adding a REIT fund option to the TSP is necessary to give federal employees the opportunity to achieve greater diversification of their investment portfolios. But such arguments ignore the fact that TSP participants already hold over $1.1 billion in REITs through the Common Stock Index Investment Fund (the "C Fund") and the Small Capitalization Stock Index Investment Fund (the "S Fund") – making TSP the 13th largest holder of REITs in the country.

In conclusion, AFGE urges you to oppose H.R. 1578, a bill to add a REIT fund option to the TSP, when your subcommittee considers the bill in April.

Thank you for your attention to this important matter.

Sincerely,

Beth Moten
Legislative and Political Director

{00217137.DOC}

March 28, 2006

The Honorable Henry Waxman
U.S. House of Representatives
Washington, DC 20515

Dear Representative Waxman:

I understand that in April, the Subcommittee on the Federal Workforce and Agency Organization may be considering HR 1578, a bill to add a real estate investment fund to the Thrift Savings Plan (TSP). The National Treasury Employees Union (NTEU) has serious reservations as to this bill and does not believe the Subcommittee should approve HR 1578 at this time.

It would be highly premature to pass this legislation before the report of the Thrift Savings Board's investment consultant, which is expected later this year. I serve as a member of the Employee Thrift Advisory Council, and NTEU is part of the unanimous vote of that body to oppose a real estate investment fund at this time. A much more careful and studied process needs to be pursued before the introduction of any sector funds to TSP.

On behalf of NTEU's active and retired members, almost all of whom participate in TSP, I appreciate your consideration of our views.

Sincerely,

Colleen M. Kelley
National President

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American Postal Workers Union, AFL-CIO

1300 L Street, NW, Washington, DC 20005

William Burrus
President
(202) 842-4246

National Executive Board

William Burrus
President

Cliff "C.J." Guffey
Executive Vice President

Terry R. Stapleton
Secretary-Treasurer

Greg Bell
Industrial Relations Director

James "Jim" McCarthy
Director, Clerk Division

Steven G. "Steve" Raymer
Director, Maintenance Division

Robert C. "Bob" Pritchard
Director, MVS Division

Regional Coordinators

Sharyn M. Stone
Central Region

Jim Burke
Eastern Region

Elizabeth "Liz" Powell
Northeast Region

Frankie Sanders
Southern Region

Omar M. Gonzalez
Western Region

March 28, 2006

Jon Christopher Porter, Sr., Chairman
Subcommittee on Federal Workforce and Agency Organization
B-373A Rayburn House Office Building
Washington, DC. 20515

Danny K. Davis, Ranking Member
Subcommittee on Federal Workforce and Agency Organization
B-373A Rayburn House Office Building
Washington, DC 20515

Dear Chairman Porter and Representative Davis:

On behalf of the over 300,000 members of the American Postal Workers Union (APWU), AFL-CIO, I am writing to urge you to postpone consideration of H.R. 1578, a bill "to provide for a real estate stock index investment option under the Thrift Savings Plan." As a member organization of the Employee Thrift Advisory Council (ETAC), the American Postal Workers Union had studied the proposed legislation in detail. We have met with other ETAC member organizations on several occasions to discuss the introduction of a new fund, including meetings with representatives of the National Association of Real Estate Investment Funds. After a review of all the relevant information, we have come to the conclusion that the legislation is not in the best interests of members of the American Postal Workers Union.

APWU worked with most other members of the ETAC to create the Federal Employees Retirement System Act of 1986. We are very proud of our support and involvement and the many successes of FERS since its inception. One of the greatest successes has been the Thrift Savings Plan. Our members are comfortable with the method by which the existing funds have been proposed and designed. The proposal to add funds which neither our members, nor the experts at the Federal Employee Thrift Investment Board have endorsed, will ultimately depress the confidence of our members in the program.

As you know, the members of ETAC, by a vote of 11-0, opposed the addition of a real estate fund to the program. No one knows better than the representatives for the member organizations the wishes of the more than 3.5 million participants who have amassed accounts totaling nearly $180 billion. These representatives have overwhelmingly opposed the additional fund at this time.

Jon Christopher Porter, Sr., Chairman
Danny K. Davis, Ranking Member
March 28, 2006
Page-TWO

The Federal Employees Thrift Investment Board and members of ETAC continue to seek opportunities to improve the Thrift Savings Plan for postal and federal employees. However, APWU joins the other member organizations of ETAC in its opposition to adding a narrow sector fund to the index funds now offered by TSP.

At some point in the future, it might be wise to add a real estate fund to the mix of funds currently offered by TSP. However, it is the unanimous view of ETAC members that now is not the appropriate time. We look forward to continuing to work with you to provide the best possible retirement systems for our members. We hope you will postpone consideration until we can arrive at a consensus view.

Sincerely,

Myke Reid
Legislative Director
ETAC Representative

William Burrus
President

MR:WB:sec
opeiu #2
afl-cio

March 28, 2006

The Honorable Danny Davis
Ranking Member
House Government Reform Committee
Subcommittee on the Federal Workforce and Agency Organization
Ford House Office Building
Washington, DC 20515

Dear Congressman Davis:

On behalf of the nearly 200,000 managers, supervisors and executives in the federal government, please allow us to address some concerns with the legislation H.R. 1578, the Real Estate Investment Thrift Savings Act (REITS). While we are not opposed to the use of federal retirement funds for real estate investments, we continue to have reservations with the singular focus of the legislation and question the precedent it sets.

Since the introduction of the Thrift Savings Plan as part of the Federal Employee Retirement System Act in 1986, which replaced the Civil Service Retirement System, the Federal Retirement Investment Board has developed six investment funds that represent a range of risks and options from government securities to international stock indexes. Indeed, two of the available funds include investment in real estate options along with other diversified investments, and each one was brought about through a collaborative process between Congress, the Board and employee representative groups.

In Congress' wisdom, they included a provision in the 1986 legislation that established an advisory council made up of employee representative groups to consult with the Board in discussing changes and advancement to the TSP. The Employee Thrift Advisory Council (ETAC) consists of unions, management organizations, and other professional associations representing federal employees enrolled in FERS and acts independently and in collaboration with the Board. FMA has held a seat on the Council since its inception and I currently hold the position of Vice Chairman.

In anticipation of the debate on this piece of legislation, ETAC invited representatives from the real estate investment industry to provide

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their perspective on this development. It was our intention to gain a full understanding of their position.

At a recent meeting of the Council, we adopted a resolution that addressed the concerns of the various groups with the development of any new fund for the TSP. We agree with the message of the resolution that the, "development of a new fund should come from an independent process developed by the Plan's fiduciaries that promotes integrity in the investment of Federal employee retirement funds."

By opening the door to industry specific investments, Congress sets a precedent, which could lead to other industries asking for their own investment funds to be introduced in the TSP without specific regard for federal retiree funds.

We believe that Congress and the Board should entertain different investments and explore more ways to provide federal employees with sound financial options for their retirement. According to a recent audit of the investment options by Ennis Knupp, so far the Board is doing a good job with developing those options. However, the introduction of any new fund must take into account diversity and be developed in a collaborative process with the Plan's fiduciaries. Please take these thoughts into consideration as you deliberate on H.R. 1578.

Thank you for your time and consideration of our concerns.

With kindest regards,

Michael B. Styles
National President
Federal Managers Association

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04-Apr-2006 03:01pm From-Shaw Bransford Veilleux & Roth P.C. 202-833-8082 T-134 P.002/002 F-909

P.O. Box 44808 • Washington D.C. 20026 • (202) 927-7000 • Fax (202) 927-5192 • www.seniorexecs.org

April 4, 2006

VIA FACSIMILE

The Honorable Jon C. Porter
Chairman
Subcommittee on Federal Workforce
and Agency Organization
B-373A Rayburn House Office Building
Washington, DC 20515

The Honorable Danny K. Davis
Ranking Member
Subcommittee on Federal Workforce
and Agency Organization
511 Ford House Office Building
Washington, DC 20515

Re: The Senior Executives Association on H.R. 1578

Dear Chairman Porter and Representative Davis:

As you know, the Senior Executives Association (SEA) represents the interests of career federal executives in the Senior Executive Service (SES), and those in Senior Level (SL), Scientific and Professional (ST), and equivalent positions. We write concerning the establishment of a Real Estate Investment Trust (REIT) fund in the Thrift Savings Plan (TSP) as outlined in H.R. 1578, and to state that SEA has decided to take no position on this bill.

As a general practice, SEA takes positions on issues that directly affect career Senior Executives and those in equivalent positions, as well as "good government" management issues from time to time. SEA's Board of Directors has considered the REIT issue and has determined that neither does it significantly impact the career executive service nor does it represent a "good government" issue. Thus, we take no position on H.R. 1578.

According to statute, SEA does recommend for appointment one of the members of the Employee Thrift Advisory Council (ETAC). That member participated in a recent resolution opposing, or at least delaying, establishment of a REIT. SEA has full confidence in the ETAC representative we have recommended, and we trust him to exercise his independent judgment on matters coming before ETAC that impact the Thrift Savings Plan. His vote on an issue does not necessarily reflect SEA policy.

We hope this clarifies SEA's position on this matter.

Sincerely,

Carol A. Bonosaro

CAROL A. BONOSARO
President

William D. Bransford

WILLIAM BRANSFORD
General Counsel

Mr. DAVIS OF ILLINOIS. Mr. Sauber, let me ask a couple of questions. Francis Cavanaugh, who was the first executive director of the TSP, stated in testimony submitted for the record that TSP participants were concerned that the management of their TSP funds would be subject to political influences. Therefore, the Federal Employees Retirement Act of 1986 required that all TSP stock funds be broad-based index funds that do not favor any particular industry.

Do plan participants still have these concerns? And do you know why the TSP was exempted from the OMB budget appropriations and regulatory controls?

Mr. SAUBER. Well, I cannot testify that I have been aware of any sort of increase or growth in concerns among TSP participants about political manipulation, and the reason is the Thrift Savings Plan over its history has kept—politics have been kept out of it pretty well. We have had a good, long—I mean, this Congress and the Board can be very proud of how popular the TSP is and the level of trust and the high level of participation. Our participation rates are much, much higher than typical 401(k) plans, and I think in part because there is a lot of trust in it.

I think in terms of why the Congress exempted the Thrift Board from the appropriations cycle, I think in general the idea was the funds that are invested in the TSP are the funds of the employees. That $180 billion belong to the workers, the employees who are saving for their retirement. These are not taxpayer money, and I think that was the main reason for exempting and for creating some independence for the Board and for creating the Board as fiduciaries whose job is to look out solely for the interests of the participants and beneficiaries.

Mr. DAVIS OF ILLINOIS. Mr. Strombotne, you have obviously spent a great deal of time, energy, and effort in this arena. Would you care to comment?

Mr. STROMBOTNE. I think Mr. Sauber hit it right on the head. The money that is in the Thrift Savings Plan is the employees'—active employees and retired employees' money. And that is sufficient reason for OMB to keep its hands off.

And I must say that I have heard the concerns expressed at the meeting about potential politicization of decisions regarding the funds that go into the Thrift Savings Plan, and I think that is something that I would be concerned about and I would hope that all of you would be concerned about, because the Thrift Savings Plan is just a tremendous success, and I have watched it progress over the years. You know, at the very beginning, we only had the three funds, and we could only make changes in our contributions in limited periods. And we could only invest so much money, and it was limited to civilians. And since then, it has expanded in practically every aspect. We have more funds. We have more flexibility. We can now change our asset allocation daily if we wanted to. The military is a part of that.

I think it is just a tremendous asset for Federal employees, retirees, military and civilian.

Mr. DAVIS OF ILLINOIS. Mike Miles, an independent financial adviser, has stated that a reduced diversification results when there is an overconcentration of investment in securities that performed

well just prior to investment. He also stated that if history is any indicator, investors are likely to be the victims rather than the beneficiaries if increased portfolio concentration of a REIT fund is added.

Do either one of you share Mr. Miles' concerns? And if so, why?

Mr. STROMBOTNE. Well, if I may be the first one on this, what I have seen from some of the investment advisers that I listen to or read, Vanguard and Fidelity mostly, there is some concern about offering too many options to people who are in 401(k) plans so that, you know, they want to—too many choices are not so great, like too many choices for breakfast cereal. You need to have a certain number that you can get your arms around and really understand, and I think that is where the Thrift Savings Plan is today, particularly with the introduction of the five lifecycle funds. The Federal employee now is not looking just at five funds. It is looking at five different options on lifecycle. And to some degree, there is a mix and match there. And it is already beginning to get complicated.

Mr. DAVIS OF ILLINOIS. Well, I still like Corn Flakes but, Mr. Sauber?

Mr. SAUBER. Yes, I do not think there is anything magic about five funds. I do not have an objection to adding more funds. I think Dick raises an interesting point. At one of our meetings we discussed a Wall Street Journal article about there is a diminished—there is a point of diminishing returns. When you get too many options, it does start to decrease participation rates. But I am not arguing that we are at that point. Just whatever funds we add, I want to make sure that we have all the data and all the information in and that we take our time and make a considered judgment. So I am not so concerned about that.

In terms of return chasing, I think there is some evidence in the behavior of Federal employees that they are just like a lot of private sector investors. It is a problem for people in general in defined contribution plans, and this is in part, I think, the fact that, you know, we have made this big change in this country over the last 20 years, shifting from defined benefit plans where the companies sort of invested people's retirement for them and employees had no role in it. And so in some ways we are in this transition period where employees are taking a more and more—have to take a more and more active role in managing their own retirement funds. And as a result, they are learning as they are going, and I think there is considerable evidence that there is a lot of return chasing that goes on, people chasing the latest hot thing. And, unfortunately, Federal employees are not immune from that activity. The Board has done studies to show that people tend to do that. They tend to dump their C Fund shares after a big downturn, and they tend to buy when things get hot. And that is something we have to guard against.

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

Mr. PORTER. Thank you, Congressman.

Congressman Marchant.

Mr. MARCHANT. Yes, sir. Mr.—is it Strombotne?

Mr. STROMBOTNE. Strombotne, yes.

Mr. MARCHANT. Is that an Irish name?

Mr. STROMBOTNE. No. It is Norwegian. [Laughter.]

Mr. MARCHANT. What process did you go—how many people are in the Senior Executives Association?

Mr. STROMBOTNE. The Senior Executives Association, I have lost track. I think there is somewhere between 2,000 and 3,000. I am not an active participant on the board of SEA any longer. I am retired. I was nominated by SEA to exercise my judgment, and I am not that involved in day-to-day activities of SEA.

Mr. MARCHANT. OK. So there was no process to poll the SEA membership as to whether——

Mr. STROMBOTNE. No, there was not.

Mr. MARCHANT. What level of interest they had?

Mr. STROMBOTNE. No. But I must say that I was a senior executive for, I believe, if I do the math right, 17 years, about half of my 34½ years as a Federal employee. And in my experience, senior executives are pretty darn busy doing their own jobs, which are of high-level and significant importance, and I did not hear a lot of my colleagues talking to me about their investment decisions and whether or not they should be investing in the C Fund or the F Fund. That is not uppermost on their minds, and I suspect that is true today.

Mr. MARCHANT. Do you see any problem with the fact that you went to the meeting and voted basically to postpone this decision and then write a letter and said you did not really have—that you really did not have any objection to it, but—you voted not to do it, but then you wrote the letter and said you really didn't have any objection to it?

Mr. STROMBOTNE. I tried to explain that earlier in my testimony, and that is, I voted in March based on the information that I had. The letter from Carol Bonasaro, president of SEA, came out in April. And between my vote and her letter, the SEA Board decided that they would take no position on the bill. That does not change my position.

Mr. MARCHANT. OK. So in this case, your research and your decision would supersede the Association's that you were elected to represent.

Mr. STROMBOTNE. Yes. They did not elect me. They nominated me to be their representative, a task that I take very seriously. And so I bring my best judgment to bear on the issues that come before the Council. And I do not go back to SEA and ask how I should vote.

Mr. MARCHANT. OK. Mr. Sauber, do you recall a similar exercise 2 years ago that the executive director recommended to you where you would go to an outside consultant and get the first three things, a study done on the first three things that were listed?

Mr. SAUBER. Do I recall them saying that they made plans to go to an investment consultant for just the first three and not the fourth?

Mr. MARCHANT. No. I mean, in previous budget cycles, you have to go out for this—you have to rebid this Barclay account.

Mr. SAUBER. Right.

Mr. MARCHANT. In previous budget cycles did you go into a consulting firm and get the first three items——

Mr. SAUBER. I am not certain it is—these contracts have been 4 and 5 years in duration, so I do not know how many iterations of

management contracts they have been through. But I do know that they have an RFP process, but I frankly at this moment don't recall whether or not they engaged an outside consultant for that. I would just have to check with my records. I would be happy to answer what I find out.

Mr. MARCHANT. Does it seem strange to you with the kind of empirical data that is available, just period, that it would take a consultant as long as it is going to take this consult to come up with the answer to that question?

Mr. SAUBER. Well, there are four questions that they have asked him, so——

Mr. MARCHANT. No, but the first three were just about bidding out the contract.

Mr. SAUBER. Well, I know—I do not have any independent——

Mr. MARCHANT. Wouldn't you stumble on the answer to No. 4 along the way?

Mr. SAUBER. I was sort of interested earlier today. I see the tension between the agency and the Congress. I understand this. You guys, by the nature of your job, you work in 2-year increments and you have to move legislation, and I know that you are here to get things done, and I totally respect that.

I just want to tell you, from our point of view, not from the Board's point of view—from our point of view as representatives of employees, and they have the $180 billion invested, our time horizon is not the same as yours. And I understand you are frustrated with the Board, and that is something that I really want the two sides to resolve. But from our point of view, we look at these funds as being available for 20, 30, 40 years. Our members are going to rely on it. So we do not really quite—so when I think of your question, I have a much longer time horizon. I think whether they are taking too long or too short is in the eye of the beholder. And obviously from your point of view, it is taking too long.

I frankly have been frustrated. I would like to know, too. There are certain questions that I wish we had the answer to before we came here. I would like to know how much——

Mr. MARCHANT. There are 50 States out there. The State of Texas, their fund is almost this big. I think CalPERS is. There is empirical data out there readily available to answer this question.

Mr. SAUBER. Right.

Mr. MARCHANT. You do not have to go pay—what was the amount of the contract, consulting contract?

Mr. SAUBER. I am not sure exactly. I think they revealed it to us, but I don't recall it at the moment. But I could find that out for you.

Mr. MARCHANT. As chairman, do you convene the meetings?

Mr. SAUBER. Yes, I do.

Mr. MARCHANT. And in your absence, who convenes the meetings?

Mr. SAUBER. Well, we have a vice chair that we consult together, if we want to call a meeting. Either he or I are there. I have been to every one we have had.

Mr. MARCHANT. OK. So do you set the agenda for the meeting or does——

Mr. SAUBER. Yes, I do.

Mr. MARCHANT [continuing]. The executive director set the——

Mr. SAUBER. I set the agenda.

Mr. MARCHANT. OK. Thank you, Mr. Chairman.

Mr. PORTER. Thank you.

I guess just in closing, a couple questions, or maybe more of a comment and you are welcome to respond.

I really sense and certainly respect that as members you are trying to get as much information as you can because you have a huge responsibility, not unlike we do. And I believe that you are, with the information that you have and very little budget, if any, trying to do the right thing for the right reasons, and I certainly respect that.

If this legislation moves forward and there were some more safeguards and some more pieces that may help give you comfort, would that—I guess would that give you more comfort with the legislation?

Mr. SAUBER. I certainly would like to hear about those ideas, and we are open to work with the committee, the subcommittee and the full committee, on that. That would be an appropriate role for us, and I would welcome the opportunity.

Mr. PORTER. And after today's hearing—you get big points for sitting through it all—are there some things that you may look at differently in your roles that may help you in working with the Board itself?

Mr. SAUBER. Well, actually, there was. I did want to comment on a few things because I got the sense that there was some misapprehension, I think, about how we work under the Federal Advisory Committee Act. From day one, the way the Council was set up was we had a secretary of the Council, which is the general counsel of the Thrift Board. The lawyers have always been involved. We have had a very sort of cooperative relationship, and I get the sense that there is some discomfort with that in Congress and that you think we should have a more arm's-length relationship.

I think there are pros and cons to that. You know, do I wish we had a budget that we could undertake all these things? Sure, everybody wants a budget. But I am very convinced that our organizations—again, I am going to speak for my organization. We are a very democratic union. Ninety-two percent of letter carriers in this country belong to the NALC voluntarily. They are very active politically and legislatively. They are very knowledgeable. At every one of our conventions, we have legislative resolutions, and we hear from our members what they want. So I am absolutely convinced I have a sense of where our members are, and I am convinced that most of the organizations in ETAC are similarly structured. These are democratic organizations with elections, and I think the Board benefits from hearing from our organizations, and I think the Congress benefits from having the ETAC available to serve as that conduit.

Unfortunately, I get the sense that, just from hearing today's hearing on this particular issue, things have not gone very well between the committee and the Board. And whatever role we can do to help build a consensus we are willing to do.

Mr. PORTER. I appreciate that, and if there is anything that you have gleaned today that would give you the tools that you need

to—what you think to perform at a different level, if you had those tools, please let us know.

Mr. SAUBER. Thank you very much. I appreciate that offer.

Mr. PORTER. Thank you very much.

I am going to be proposing legislation based upon the GAO report, and the GAO report pointed out a few areas that need some assistance. That is a systematic effort to assess TSP's participants' overall satisfaction with the service being provided, which I think is just good business to find out, and to institutionalize the routine collection of information and systematic assessment of industry trends and innovations. So you will have more tools available to you as a committee as you make your recommendations. So I will be introducing legislation.

And I am very open for any other ideas. It does not have to be tonight, but as we put this together, I would like to get some of your thoughts to help improve and help you with your role.

Also for the record, I mentioned it earlier but in a more formal perspective, I want to reiterate that Chairman Davis has asked that we postpone consideration of H.R. 1578, instead consider the bill in full committee at a later date so there could be a full and fair debate about the proposals among the members of the entire committee and stakeholder groups. So he wants additional input. I just want to make sure that is understood.

And with that, thank you all very much for being here and we will adjourn the meeting.

[Whereupon, at 6:48 p.m., the subcommittee was adjourned.]

[The prepared statement of Hon. Elijah E. Cummings and additional information submitted for the hearing record follow:]

Opening Statement

Representative Elijah E. Cummings (MD-7)

Subcommittee on the Federal workforce and Agency Organization hearing entitled, "Adding a Real Estate Investment Trust (REIT) Index Option to the Thrift Savings Plan: Considering the Views and Advisory Role of the Employee Thrift Advisory Council."

U.S. House of Representatives
109th Congress

April 26, 2006

Mr. Chairman, thank you for calling this critically important hearing to examine the Employee Thrift Advisory Council's opposition to the Real Estate Investment Thrift Savings Act (H.R. 1578).

The Federal Employees Retirement System Act of 1986 established the TSP. Today it represents an essential component of federal employees overall compensation package and retirement benefits, and is the largest-defined contribution plan in the nation.

Under the TSP federal employees can invest a share of their income in five funds. H.R. 1578 would direct the Federal Retirement Thrift Investment Board to add a REIT fund option to the TSP. While research indicates that REITs from 1988-2004 outperformed all of the funds under the TSP, Congress must seriously consider the views of the Federal Retirement Thrift Investment Board and the Employee Thrift Advisory Council when evaluating the merits of H.R. 1578.

In moving forward, we must ensure that the TSP remains simple, apolitical, and well-equipped with Fund options that can provide TSP participants with the best return on their investment.

Make no mistake, we must never lose sight of the fact that the retirement benefits the federal government offers to TSP

participants represents one of its greatest tools to attract and retain the best and the brightest to serve our great nation. Nor should we forget that our decisions will resonate, for good or ill, in the retirement security of 3.5 million participants who are likely to rely on the TSP in the twilight of their years.

With that in mind, I believe we should use this hearing as an opportunity for some further deliberation by sincerely reflecting on the position of the TSP's legal fiduciaries and the position of the organizations that represent federal employee groups. In the end, our decision should hinge solely on whether enactment of H.R. 1578 is in the best interest of the TSP's participants.

I look forward to the testimony of today's witnesses and yield back the balance of my time.

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February 24, 2005

The Honorable Jon C. Porter
Chairman
House Subcommittee on Federal Workforce
and Agency Organization
2157 Rayburn House Office Building
Washington, D.C. 20515-6143

Re: REIT Index Option in Thrift Savings Plan

Dear Chairman Porter:

Thank you very much for the time and energy your Subcommittee has expended in examining the benefits of adding new investment choices to the Thrift Savings Plan (TSP), including a REIT index fund. We appreciate all of the cooperation the Subcommittee has given us.

We continue to believe that adding more choices would provide substantial benefits to TSP participants. The experts appear to agree. In a recent paper analyzing the adequacy and characteristics of investment choices offered by 401(k) plans, professors from New York University and Fordham University found that the types of choices offered by 62% of the 406 plans they analyzed were inadequate and that these inadequacies over a 20-year period resulted in a difference in portfolio value of more than 300%. For plans offering five or fewer choices, the proportion of plans found to be inadequately diversified rose to 85%.[1] A study by the Investment Company Institute, which reported that more than 60% of 401(k) plan participants have no other financial assets beyond a bank account, serves to highlight the seriousness of these inadequacies.[2]

This letter provides you with our initial views on the subjects that Mr. Amelio raised in the "White Paper" attached to his letter to Ron Martinson dated January 18, 2005. We are preparing a more detailed response with Ibbotson Associates, a leading authority in the field of investment analysis and asset allocation, and expect to present a more complete report to you in the near future. This letter addresses the issues raised in the order presented in the White Paper.

[1] Elton, E. J., M. J. Gruber and C. R. Blake, *The Adequacy of Investment Choices Offered By 401(k) Plans, Working Paper*, December 2004.
[2] *Id.*

♦♦♦

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The Ibbotson Study Is For Illustrative Purposes Only

The White Paper dismisses the analysis provided by Ibbotson Associates, and by implication nearly all investment research, advice and recommendations, because of the caveat attached to that analysis: "This is for illustrative purposes only and not indicative of future results. Past performance is no guarantee of future results." This disclaimer accompanies nearly all investment analysis both because of legal liability issues as well as its self-evident truth about the uncertainty of future events. Indeed, the TSP itself advises plan participants on page 23 of its own publication, entitled *Summary of the Thrift Savings Plan for Federal Employees*: "There is no assurance that future rates of return for the TSP stock funds will replicate any of the historic rates of return for those funds." Similar language is found on page 5 of the *Guide to TSP Investments*.

Still, while acknowledging such uncertainty, financial planners, investment advisors and market analysts generally do not counsel investors to ignore past performance. Not knowing future results does not suggest investors should not review historical returns. In fact, historical returns provide our only glimpse of important investment attributes, including the relative risks and returns of different asset classes and the extent to which the returns to different asset classes historically have been correlated.

Predicting Future Returns

After dismissing the Ibbotson analysis because "historical returns are not necessarily predictive of future expected returns," the White Paper then goes on specifically to conclude that it is not reasonable to assume that international equities will consistently underperform domestic equities.

Here the White Paper simply misinterprets this aspect of the Ibbotson analysis, which was intended to provide an historic comparison of how the five investment choices now available to plan participants **actually** performed since the inception of the TSP. Such historical comparisons commonly serve as a starting point in investment research because they rely only on the indisputable record of past performance and require no speculation. More complicated analyses that depend on alternative forecasts of future investment returns subsequently may be developed. In fact, such a forward-looking analysis was the basis for the second part of the analysis that Ibbotson prepared for the TSP and that we presented to Mr. Amelio and his staff, but apparently that part of the analysis has been overlooked or ignored. To be clear, neither Ibbotson nor NAREIT argue that future investment returns will exactly duplicate the past record, but we do believe that the past is a useful tool in planning for the future.

In fact, it is worth noting that in advocating its proposal to modify the Social Security system to provide for personal investment accounts, even the White House has cited the historical rates of return earned over the past ten years in the TSP's C, S and I Funds as evidence that investors are likely to earn more than the 3.3% annual real rate of return required to come out ahead in their personal accounts.

Relevance of the NAREIT Equity REIT Index

The White Paper asserts that the NAREIT Equity REIT Index is an inappropriate benchmark for measuring REIT investment returns because it includes the stocks of nearly all publicly traded REITs, even the stocks of a number of small companies that the White Paper says "are very thinly traded." Again, the White Paper misinterprets our use of this particular index. We are not recommending that the TSP introduce a REIT index fund that uses the NAREIT Equity REIT Index as its benchmark. We only are recommending that the TSP add a REIT index fund to its investment lineup. The choice of an appropriate benchmark for such an index fund would seem to be best decided by a qualified investment manager. However, we do maintain that the NAREIT Equity REIT Index, while not an investable index today, is an accurate measure of the investment performance of equity REIT stocks as well as an appropriate measure for use in investment analysis.

The White Paper asserts that a more appropriate benchmark for investment analysis is the Dow Jones Wilshire Real Estate Securities Index (WRESI). In a mean-variance optimization analysis, the White Paper concludes that using the WRESI "would not have produced portfolios with significant allocations to the WRESI ... and would only be included in the least risky portfolios." Pending further study, we do not at present either accept or reject these results. However, it is clear that these results depend heavily on the composition and returns of the WRESI. While we are preparing a more complete comparison of the two indexes, it is clear that the disparity of results attributable to the two indexes largely is explained by differences in the constituent companies that comprised the two indexes in 1990 and 1991, differences that no longer are substantive in 2005.

Total returns to equity REITs (*i.e.*, REITs that own and manage real estate and collect rental income from the real estate's tenants) have a low correlation with the total returns to other asset classes in part because of the type of income they earn and because of the income distribution requirements for REITs contained in the Internal Revenue Code. The apparent reasons the NAREIT Equity REIT Index and the WRESI produced dramatically different returns in 1990 and 1991 are because the WRESI included many non-REITs and so-called "hybrid REITs," *i.e.* REITs that own significant portfolios of mortgages as well as rental real estate, and because it excluded all health care REITs and many other large REITs. Non-REIT real estate companies historically incur far higher levels of debt and distribute little or no income compared to equity REITs. Hybrid REITs have been far more sensitive to movements of interest rates and thus are considered more volatile. These disparities between the two indexes likely explain most, if not all, of the disparities between the results of the Ibbotson and White Paper analyses. More important, looking to the future the tracking error between the two indexes today is quite small.

The NAREIT Equity REIT Index does indeed reflect returns of equity REITs. More important, eleven out of fifteen of the largest real estate funds benchmarked their performance to the NAREIT Equity REIT Index as compared to the WRESI and the other REIT Indexes.[3] The other

[3] *BancofAmerica Securities Real Estate Weekender* (July 25, 2003). In addition, the NAREIT Equity REIT Index is cited within the investment community as the benchmark for REIT performance more often than any other REIT index. *Deutsche Bank Fourth Annual Real Estate Benchmark Study* (April 12, 2004).

indexes (including the DJ Wilshire REIT Index) have moved closer to how the NAREIT Equity REIT Index is calculated over the years.[4] As of January 31, 2005, the WRESI still excludes health care REITs as well as a number of other large equity REITs, while including three non-REIT companies.

Validity of Mean-Variance Optimization

The White Paper also dismisses the Ibbotson Associates mean-variance analysis (MVA) as lacking "common sense." This is surprising. The TSP professional staff no doubt is aware that MVA is a standard tool for asset allocation and analysis, not the only tool, but a common tool. Harry W. Markowitz pioneered the use of MVA in the 1950s and was awarded the Nobel Prize in Economics in 1990 for his work. Ibbotson Associates is widely acknowledged as experts in the use of Mr. Markowitz's mean-variance optimization for constructing what are known today as "efficient frontiers" that identify optimal investment portfolios that would have produced the highest investment returns for each level of investment risk. With MVA, such portfolios can be constructed using either historical investment returns or a particular set of predicted investment returns expected to occur in the future.

The Ibbotson MVA produced portfolios with relatively high allocations to a REIT index fund because the relatively high level, low risk and low correlation of REIT returns produced optimal portfolio returns that could not have been replicated with any combination of allocations to the other five TSP investment funds. Over the 1988-2003 period, lower allocations to a REIT index fund simply would have resulted in overall portfolio returns that would have been less than they could have been. However, at no point in the Ibbotson analysis, or in any of our conversations with TSP participants and policymakers, has Ibbotson or NAREIT made specific investment recommendations. In particular, NAREIT has never recommended that investors make a 40% allocation to a REIT index fund or to any other fund. To clarify this point, we have asked Ibbotson both to update its analysis to reflect 2004 performance and to analyze the benefits to TSP investors of more moderate allocations of 10% or less.

Appropriate Additional TSP Investment Options

We agree with the White Paper's position that consideration of alternative TSP investment options should not be made on an *ad hoc* basis. Indeed, we understand that a thorough analysis of alternative investment options was the basis for Chairman Davis' central question contained in his letter of July 21, 2004 to Mr. Amelio[5]: what are "the types of additional funds that offer investment options that are relatively non-correlated with the performance of the existing five

[4] For example, in 2002 the Morgan Stanley REIT Index (recently renamed the MCSI Real Estate Index) for the first time included health care REITs, something the NAREIT Equity REIT Index has done since health care REITs were introduced in the 1980s.

[5] The White Paper answered Chairman Davis' first question about the optimal number of TSP investment alternatives by concluding the current five options "are sufficient for the construction of risk-optimized portfolios appropriate for TSP participants." By way of comparison with the private sector, the Profit Sharing/401k Council of America's latest survey discloses that 401(k) plans that offer lifecycle funds provide an average of 20 investment options to their participants. The survey also reports that 401(k) plans that do not offer lifecycle funds provide an average of 14 investment options.

TSP funds and have demonstrated track records of creating value for investors in a diversified investment portfolio"? The White Paper neither seriously addresses nor rigorously answers the Chairman's inquiry.

Instead, the White Paper provides no effective analysis of this pertinent issue and only a conditional assessment of what other investment options possibly should be considered in the future: high-yield debt, inflation protected bonds (TIPS)[6], commodities and emerging market equity. The White Paper only says that "[a]ll of these options should be considered in addition to REITs, in any evaluation of additional finds." While NAREIT strongly agrees with this statement, Chairman Davis' request for an analysis to determine which of these (or other options) should be offered to TSP participants has yet to be fulfilled.

TSP Allocations to Real Estate

The White Paper acknowledges that recent survey data from defined benefit plans show that such plans have a 5% mean allocation to real estate. However, a TSP participant cannot achieve a 5% level by investing in the C Fund, which as of December 31, 2004 had a .55% allocation to REITs. Moreover, a TSP participant could achieve a 5% allocation to REITs by investing in the S Fund only if 75% of his or her TSP assets were allocated to the S Fund.[7] Since the White Paper expressed concern about a 40% allocation to a REIT index fund, surely the TSP professional staff is not suggesting that a TSP participant should allocate three-quarters of their TSP portfolio to one fund in order to obtain the same 5% allocation to real estate that is common for defined benefit plans.

Liquidity

We find it quite notable that, contrary to earlier TSP representations, the White Paper now concedes with respect to REITs, "Market liquidity is ample to support daily trading." This is consistent with Barclays Global Investors Chairman Blake Grossman's letter to Chairman Davis dated January 26, 2005.

In addition, the White Paper's concern about transactions costs is hypothetical and could be clarified further by Barclay's Global Investors. However, we find it curious that the White Paper's concern about the likely transactions costs of a REIT index fund (an equity fund) focuses on the $10.5 billion F Fund (a fixed income fund) rather than on a more relevant comparison with either of the other two most recent equity funds, the $5.9 billion S Fund or the $2.3 billion I Fund.[8] The White Paper does not state why the TSP staff apparently believes that a REIT index fund would attract capital more rapidly, or that transactions costs for a REIT index fund would be higher, than for either of these two more recent funds, both of which were added in 2001.

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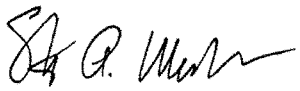
[6] Interestingly, the White House social security proposal to add personal accounts would add "a government bond fund with a guaranteed rate of return above inflation" (a TIPS fund) as a sixth fund to supplement the existing five TSP funds. *See Strengthening Social Security for the 21st Century* (Feb. 2005).
[7] As of December 31, 2004, 6.66% of the index tracked by the S Fund represented REITs.
[8] As the date this letter was written, the TSP had not updated its "TSP Fund Information Sheets" beyond December 31, 2003.

Administrative Concerns

The White Paper disparages TSP participants' ability to manage even the existing investment options. While NAREIT agrees that lifecycle funds are appropriate and worthwhile, we continue to believe that TSP participants could benefit by other investment options, perhaps supplemented with more extensive educational programs developed by the TSP. At the very least, we believe that not providing the investment manager of the lifecycle funds with the ability to specifically allocate assets to a REIT index fund, as well as to a number of other possible choices, will handicap the manager's ability to provide optimum diversification benefits to TSP participants.

As I noted, we currently are preparing the more detailed response warranted by the assertions and generally unsupported conclusions put forward in the White Paper, and hope to get this more detailed response to you in the future. In the meantime, we would be happy to discuss any of these issues with you and your staff at your convenience.

Sincerely,



Steven A. Wechsler
President & CEO

cc: Ronald L. Martinson

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September 6, 2004

Mr. Steven A. Wechsler
President and CEO
National Association of Real Estate Investment Trusts
1875 Eye Street, NW, Suite 600
Washington, D.C. 20006-5413

Dear Mr. Wechsler:

I would like to follow up with you regarding your interest in adding a real estate investment trust (REIT) option to the Thrift Savings Plan (TSP).

On Tuesday, August 31, 2004, the staff of the Subcommittee on Civil Service and Agency Organization met with Mr. Gary Amelio, Executive Director of the Federal Retirement Thrift Investment Board (FRTIB), to discuss the possibility of adding REIT's to the TSP. Following both the meetings with Mr. Amelio, as well as with the National Association of Real Estate Investment Trusts on June 23, 2004, I would appreciate if you could provide the committee with additional information regarding a number of outstanding questions.

First, I am interested in your estimate of the administrative and management costs for a REIT in the TSP. As you know, the administrative and management costs of the TSP are currently seven (7) basis points. Is it possible to add a REIT option to the TSP having comparable costs? How many basis points would you anticipate?

Second, I would like you to provide further information regarding concerns about the liquidity of REIT's and how it would affect the daily operations of the TSP. Currently, all funds available to federal employees are accessible for daily transactions on the TSP website. It is my understanding that most REIT's cannot be bought and sold by an individual on a daily basis without fees or penalties, such as in IBM's plan, which restricts trading in REIT's to once per quarter. If this is so, how would you propose integrating REIT's into the TSP as an option for employees? How often would you expect that an employee would be allowed to conduct transactions without penalty?

Third, I am interested in how REIT's have operated in other daily valued direct contribution plans. Please provide information to the committee, if you are aware of any other such plans, highlighting how these plans have dealt with the liquidity concerns raised in the previous paragraph.

Fourth, I am interested in the performance of REIT's as compared to the performance of the five funds available in the TSP. The March 2003 Ibbotson Associates study on the TSP you

provided to the committee reports that the average annual total returns of the NAREIT Equity REIT Index were 12.8% from 1988-2003. Is this index representative of all REIT's in the stated time period? Did REIT's exist before 1988 and, if so, how did they perform as compared to the funds in the TSP?

Fifth, I am interested in the level of interest that Federal employees would have in a real estate option, considering their historically risk-averse tendencies. What would you anticipate to be the participation in such a fund as a percentage of the total money invested in the TSP? In other defined contribution plans, what is the average percentage of people who participate in a real estate investment trust?

Sixth, the view has been expressed that REIT's are not a separate asset class of investment, but rather an "industry" already represented in the broad portfolios of the C and S funds. How would you effectively differentiate REIT's as a distinct investment option for the TSP?

Please provide this information to the committee as soon as possible. I appreciate your willingness to work closely with this committee on matters of importance to the TSP, and look forward to hearing back from you soon.

Sincerely,

Tom Davis

Tom Davis
Chairman
Committee on Government Reform

Real Estate Investment Trust (REIT) Option
For the Federal Thrift Savings Plan

Response to Chairman Davis' Letter Dated September 6, 2004

By the

National Association of Real Estate Investment Trusts®

October 7, 2004

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Glenn J. Rufrano
New Plan Excel Realty Trust, Inc.

William D. Sanders
Verde Realty

Warren E. Spieker, Jr.
Spieker Partners

Martin E. Stein, Jr.
Regency Centers Corporation

Garrett Thornburg
Thornburg Mortgage, Inc.

Chris D. Wheeler
Cobbs Residential Trust

Donald C. Wood
Federal Realty Investment Trust

Richard S. Zimman
Arden Realty, Inc.

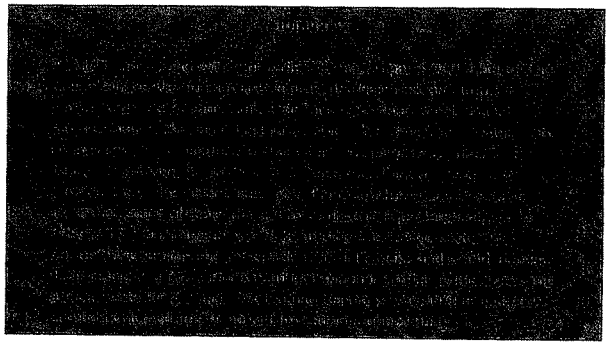
NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

October 7, 2004

The Honorable Tom Davis
Chairman
Committee on Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Davis:

Thank you for your letter of September 6, 2004 (copy attached) requesting further information pertaining to the merits of adding a real estate investment trust (REIT) index fund to the investment menu of the Federal Thrift Savings Plan (TSP). I appreciate your interest in this matter and welcome the opportunity to provide clarifying information to the Committee. For your information, we have previously provided TSP staff information similar to what we are providing you today.



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1. ADMINISTRATIVE AND MANAGEMENT COSTS

Is it possible to add a REIT option to the TSP having administrative and management costs comparable to the current seven basis points cost of the other four externally managed funds? How many basis points would you anticipate?

Yes. We understand that TSP administrative costs plus external management fees equal seven basis points for the four TSP equity and bond funds now managed externally.[1] Although the Federal Retirement Thrift Investment Board knows best whether the TSP's administrative expenses for administering a REIT index fund would be more or less than its costs for administering the C Fund, the F Fund, the S Fund and the I Fund, we have no reason to believe that the costs for administering a REIT index fund would be any different.

We put the question of investment management fees to the portfolio managers and senior investment professionals at institutional investment firms that manage some of the largest actively managed, as well as passively indexed, REIT funds. We specifically asked them for their indications of the likely investment management fees of providing a REIT index fund to TSP participants. Generally speaking, these professionals recognize the appreciable economies of scale available when managing large investment funds like the TSP, and they indicated that the costs of managing a REIT index fund would be comparable with the costs of the TSP's four other externally managed funds and clearly less than ten basis points.

It is important to recognize that the cost indications provided by the investment professionals with whom we have spoken likely are somewhat conservative and not firm quotations based either on competitive bidding or a direct inquiry by the Committee on Government Reform. However, I am confident that firm quotations for investment management fees would be forthcoming should the Committee itself request such information from one or more leading investment management firms, most specifically the TSP's current investment manager. We are prepared to provide the Committee with appropriate contact information at the nation's leading investment management firms if such information would be helpful.

The critical question for TSP participants, as well as for all investors, should not narrowly focus only on the costs associated with a particular investment opportunity, but rather more broadly on the diversification and investment performance benefits available from that investment opportunity relative to its costs. As clearly demonstrated in the March 2004 Ibbotson Associates analysis, adding a REIT index fund to a portfolio of G, F and C Funds over the period 1988-2003 (the life of the TSP) would have increased average annual returns in optimal portfolios by up to 90 basis points, whereas adding the S Fund and the I Fund over the same period provided no marginal increase in average annual returns.[2]

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[1] Documentation available at the TSP web site indicates that TSP administrative expenses plus investment management fees totaled 10 basis points for all five TSP funds in 2003, although several basis points owed to approximately $36 million of capitalized expenses that were charged to participant accounts on June 23, 2003.
[2] The Ibbotson Associates analysis was completed in March 2004, not March 2003.

Moreover, the Ibbotson Associates analysis conservatively assumed 28 basis points for combined administrative expenses and investment management fees for offering a REIT index fund. As our research indicates, actual administrative costs and management fees should be far less, comparable to the other externally managed TSP funds.

2. LIQUIDITY OF REITS

Can most REITs be bought and sold by an individual on a daily basis without fees or penalties? How would you propose integrating REITs into the TSP as an option for employees, and how often do you expect an employee would be allowed to conduct transactions without penalty?

Based on the data and our inquiries, we believe that the liquidity of the REIT market is more than sufficient to suit the needs of the TSP. Like the stocks of all other publicly traded companies, REIT stocks are bought and sold daily both by institutions and by individuals on the New York Stock Exchange, the American Stock Exchange and the NASDAQ. There are no restrictions and no penalties on such purchases and sales other than the normal brokerage fees paid to trade all securities on public markets. Likewise, REIT open-end, closed-end and exchange-traded funds also are priced and traded daily. As shown in Exhibit 1, trading volume of the NAREIT Composite REIT Index, which includes the stocks of approximately 180 publicly traded REITs, has grown appreciably in recent years. Daily dollar trading volume has reached an average of approximately $1 billion, with significantly higher volumes available when the market demands it.

We propose integrating a REIT index fund as part of the TSP investment menu on a completely equivalent basis with the other currently available four index funds, with comparable accessibility for daily self-directed transactions and absolutely no penalties. According to market professionals with whom we have spoken, most defined contribution plans that include one or more REIT fund options place no costs, restrictions or penalties on their REIT options that are not imposed on all other investment options by the standard features of the overall plan.

In particular, we have confirmed that the IBM 401(k) plan imposes no trading restrictions or transaction penalties on its REIT index fund. IBM is the largest private 401(k) plan sponsor with approximately $21 billion under management in its 401(k) plan. Although some trading restrictions recently have been imposed on the plan's International and European fund options, these restrictions were adopted in response to the "stale pricing" issue at the root of the recent mutual fund investigations regarding after-hours trading. No other restrictions on any other funds are contemplated at this time. IBM allows each plan participant eight no-cost transactions per year, not counting contributions, and allows unlimited additional transactions for a fee of $15 per transaction.

These limitations apply to **ALL** investment options within the plan, not just the REIT option, and were adopted to discourage excessive and short-term speculative trading in an investment vehicle – a tax-deferred 401(k) – that IBM views as having been designed primarily for long-term retirement savings. Such excessive-trading restrictions are in no way a response to limited market liquidity in any of IBM's funds, and the TSP clearly is under no obligation to adopt similar trading policies regardless of the merits of such policies.

3. REITS AND DAILY VALUED DIRECT CONTRIBUTION PLANS

How have REIT investment options operated in other daily valued direct contribution plans?

A May 2004 survey of members by the Committee on Investment of Employee Benefit Assets revealed that about 70 percent of large 401(k) plan sponsors have introduced rules to control market timing in their plans, and an additional 14 percent of sponsors plan to take similar action in the near future.[3] Moreover, 85 percent of plan sponsors that already have adopted such rules report having found those measures to be either very effective or somewhat effective at curbing market timing or excessive trading. We have clarified the nature of trading restrictions in the plans and funds offered by a number of other large plan sponsors and plan providers, and our findings are consistent with these survey data.

T. Rowe Price Associates, Inc. is the eighth largest defined contribution plan provider with $57 billion of assets under management.[4] We have confirmed that T. Rowe Price imposes no unique trading restrictions or other penalties on its REIT fund. However, effective January 1, 2005, T. Rowe Price will add to 36 of its publicly offered, open-end funds certain excessive and short-term trading restrictions plus redemption fees of one-half (0.5) percent to two (2.0) percent when selling shares in those funds held for less than three months.[5] These funds include the Equity Index 500 Fund (a passively managed fund indexed to the S&P 500 Index), the Extended Equity Market Index Fund (an actively managed fund benchmarked to the Wilshire 4500 Index), the International Equity Index Fund (a passively managed fund indexed to the FTSE Developed ex-North America Index), the U.S. Bond Index Fund (a passively managed fund indexed to the Lehman Brothers U.S. Aggregate Index) and the Real Estate Fund[6] (an actively managed fund normally investing at least 80 percent of its assets in equities of real estate companies including REITs).

According to a T. Rowe Price prospectus, excessive or short-term trading by market timers can disrupt a fund's investment program and create additional costs for long-term shareholders. Redemption fees are paid to a fund to help offset costs and to protect its long-term shareholders. The redemption fees apply to investors in both taxable and tax-deferred accounts, including

[3] Reported in the August 9, 2004 issue of *Pensions & Investments*.
[4] Ibid.
[5] Shares purchased with retirement plan participant contributions (*e.g.*, payroll contributions) are not subject to the redemption fees.
[6] Effective January 1, 2005, the holding period for the Real Estate Fund actually will be reduced to three months from six months.

401(k) accounts, and were adopted in order to deter market timers. Importantly, the prospectus says nothing about market liquidity pertaining to the company's real estate fund or to any other fund. Although T. Rowe Price believes such policies are in the interests of its long-term shareholders, the TSP would have no obligation to adopt similar policies regardless of their merits.

The General Motors 401(k) plan offers its participants two REIT investment funds, and neither of these two funds has any trading restrictions nor any redemption fees or other penalties. General Motors Asset Management is the 27th largest defined contribution plan provider, as well as a corporate plan sponsor, with $22 billion of assets under management. GM recently imposed restrictions on the International and Emerging Markets funds in its 401(k) plan, once again owing to the stale pricing issue surrounding the recent mutual fund investigations. GM also clarified that market liquidity today imposes no limitations on either of its two REIT funds or on any of the other funds in the GM 401(k) plan.

We also have confirmed that Verizon, Fidelity and Principal do not impose special trading restrictions on their 401(k) REIT funds for liquidity purposes. Verizon Investment Management Corp. is the fifth largest private 401(k) plan sponsor with $15 billion under management in its 401(k) plan. Fidelity Investments is the largest defined contribution plan provider with $360 billion of assets under management. Principal Global Investors is the largest 401(k) plan provider by number of plans with $41 billion of defined contribution assets under management.

Verizon recently imposed certain trading restrictions on a number of the funds in its 401(k) plan, including its REIT fund. As with T. Rowe Price, the restrictions were adopted as a means to limit market timers and to address the issue of stale pricing surrounding the recent mutual fund investigations and had nothing to do with market liquidity in any of its funds. Principal Global Investors has added a number of similar restrictions to its international and emerging markets funds, but none of those provisions are thought to be necessary for its REIT fund.

In defined contribution plans for which Fidelity is the bundled provider, Fidelity also has adopted a structure of progressive trading restrictions to limit the effects of plan participants who engage in excessive trading activity. As with T. Rowe Price, Fidelity also has adopted a schedule of redemption fees for a number of its funds, including its Real Estate Securities fund, to cover the costs of excessive transactions and to protect the interests of long-term shareholders. The redemption fees range from three-fourths (0.75) percent for the Real Estate Securities fund to two (2.0) percent for the small-cap funds. These redemption fees are imposed when selling shares in those funds held for less than three months. Importantly, none of the trading restrictions or redemption fees is meant to address concerns related to market liquidity.

4. PERFORMANCE OF REITS

Did REITs exist before 1988 and, if so, how did they perform as compared to the funds in the TSP? Is [the NAREIT Equity REIT] index representative of all REITs in the stated time period?

Yes. REITs have existed, and their stocks have traded on public markets, since 1960. NAREIT has calculated REIT investment performance benchmarks since 1972. The REIT investment performance data included in the March 2004 Ibbotson Associates analysis are taken from the NAREIT Equity REIT Total Return Index, which currently represents 146 REITs that trade daily on the New York Stock Exchange, the American Stock Exchange and the NASDAQ.[7]

The investment performance data in the Ibbotson Associates analysis that you refer to in your letter focused specifically on the 16-year period 1988-2003 because that is the period for which complete TSP funds data were available. No TSP fund performance statistics are available prior to 1988. Exhibit 2 summarizes the investment performance data cited in the Ibbotson Associates analysis and in your letter. The average annual total returns demonstrate the diversification benefits available from REITs during the shorter and more turbulent period of 2000-2003 as well as the long-term competitive returns available from REITs over the longer period of 1988-2003.

Although TSP fund performance data only are available beginning 1988, a somewhat longer perspective of nearly 21 years can be developed using data from the underlying indexes of all the funds except the G Fund, which are available beginning 1984.[8] Exhibit 3 compares average annual returns over the period January 1984 to August 2004 for the underlying fund indexes in a format similar to that of Exhibit 2.[9] The data again demonstrate the diversification benefits available from REITs during the shorter period of January 2000 – August 2004 and the competitive level of REIT returns over the longer period of January 1984 – August 2004.

An even longer perspective on investment performance is illustrated in Exhibit 4, which compares average annual total returns of a broader set of major stock and bond indexes for various time frames over the 32-year period 1972-2003.[10] Investment risk for each market index, measured by the standard deviation of annual returns over the entire period, is compared in the bottom row of the exhibit. It is noteworthy that equity REITs have provided competitive or superior returns over all time periods and that those returns have been delivered at a lower risk than all other equity indexes except the Dow Jones Industrial Average.

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[7] There are a number of publicly traded, small-cap REITs that trade over the counter, as well as a number of publicly registered REITs that are not publicly traded. These companies are not included in any of NAREIT's investment performance benchmarks.

[8] The period beginning January 1984 was chosen because the S Fund benchmark, the Wilshire 4500 Index, begins January 1984.

[9] Returns for 2004 are based on eight months of data through August 31, 2004.

[10] The Russell 2000 Index is used for small-cap equity returns rather than the Wilshire 4500 Index because the Russell 2000 Index offers an additional five years of historical investment performance.

Comparing average annual returns over different investment horizons is only one way of comparing performance. Owing to their unique statistical properties, the average return and standard deviation of returns (shown in Exhibits 2-4) are measures used most frequently in analyses of portfolio performance, including the Ibbotson Associates analysis. However, investors also compare investment returns using the compound annual rate of return. The compound annual rate of return has two attractive qualities. First, the compound annual rate of return is a measure of annual return that can more easily be calculated over investment horizons that do not begin and end with complete calendar years. Second, the compound annual rate of return recognizes the compounding benefits of long-term investors who reinvest their interest and dividend payments and hold their investments over long-term investment horizons. Specifically, the compound annual rate of return is the 12-month rate of return required every 12 months to grow an initial investment amount into a future investment amount.

Exhibit 5 compares compound annual rates of return for different investment horizons over the 32-year period July 31, 1972 – July 31, 2004 for the same major market benchmarks shown in Exhibit 4. It is again noteworthy that equity REITs have provided competitive or superior returns over all time periods.

5. FEDERAL EMPLOYEE INTEREST IN REITS

Considering the historically risk averse preferences of TSP participants, what would you anticipate to be their participation rate in such a (REIT) fund as a percentage of the total money invested in the TSP? What is the average percentage of plan participants in other defined contribution plans that participate in a real estate investment trust?

As most often is the case with newly introduced investment choices in other defined contribution plans, the rate of participation in a newly introduced REIT index fund among TSP participants is likely to increase slowly over time. Moreover, the participation rate is likely to vary over time as participants respond to economic developments, changes from year to year in the investment returns from different funds, and a varying demographic profile of TSP participants. The participation rate also will to depend on how well TSP participants are educated about the relative performance and diversification benefits available from a REIT fund as well as from all other investment choices.

Risk preference is another factor likely to affect the rate of participation in a REIT index fund. Therefore, it is instructive to note that the standard deviation of annual returns (a common measure of investment performance risk) from January 1984 through August 2004 was 19.2 percent for the S Fund index (the Wilshire 4500) and 24.3 percent for the I Fund index (the MSCI EAFE). Over the same period, the standard deviation of annual returns to the NAREIT Equity REIT Index was 15.1 percent. If TSP participants allocate their investments in part based on risk tolerance, as well as on an accurate understanding of the relative risks of each fund, then the participation rates observed for the S Fund and the I Fund may provide base-line estimates for the participation rate in a REIT fund.

Although we do not have access to TSP participation rates by number of participants, the Federal Retirement Thrift Investment Board occasionally publishes the proportions of total TSP assets allocated to the current five investment funds. Using these data, Exhibit 6 provides some evidence pertaining to the pace at which TSP participants have increased their asset allocations to the S Fund and the I Fund, the two funds most recently introduced in May 2001. As of December 31, 2003, allocations to the S Fund had grown to 4.6 percent ($5.9 billion) of total TSP assets of $128.8 billion. Over the same period, allocations to the I Fund had grown more slowly to 1.8 percent ($2.3 billion).

Data for participation rates by number of participants at other defined contribution plans also are not readily available. However, the Profit Sharing/401(k) Council of America publishes annual survey data pertaining to the proportions of different types of investment funds, including real estate funds, which comprise the investment lineups offered by profit sharing and 401(k) plans.[11] As shown in Exhibit 7, the proportion of all plans offering a real estate fund for participant contributions has more than doubled from around 5 percent of all plans in the late 1990s to nearly 12 percent in 2003.

Additionally, PSCA survey data for the 2002 plan year showed that participants in plans offering a real estate fund as part of their investment lineup had allocated 3 percent of their total invested assets to the real estate fund, a result not unlike the participation rates for the S Fund and the I Fund.

6. REITS AS A DISTINCT INVESTMENT OPTION

How would you effectively differentiate REITs as a distinct investment option for the TSP?

The Ibbotson Associates analysis, the Morningstar® retirement guide and major institutional portfolios, including the widely recognized Harvard Endowment, all include a targeted allocation of at least 5-10 percent to income producing real estate investment, including REITs, in order to achieve a meaningful and appropriate amount of portfolio diversification. In all these applications of modern portfolio theory, the critical issue is not whether the real estate allocation nominally is referred to as an "industry" allocation or an "asset class" allocation. Rather, the critical issue is whether a real estate allocation adds appreciable diversification benefits to the overall portfolio and what allocation is required in order to achieve those benefits.

As shown in the upper panel of Exhibit 8, the C Fund tracks the Standard & Poor's 500 Index, which includes 6 REITs, and the S Fund tracks the Wilshire 4500 Index, which includes 175 REITs. Thus, some exposure to REIT stocks is embedded in the performance of these two funds. However, the exposure is very small. As of August 31, 2004, REIT stocks comprised only 0.47 percent of the total market value of the S&P 500 and only 7.45 percent of the total market value of the Wilshire 4500.

[11] The most recently published PSCA survey, the 47th Annual Survey, reported data for the 2003 plan year experience of 1,161 plans with more than 3.4 million participants and $412 billion in plan assets.

The lower panel illustrates the effective allocations to REITs that TSP participants actually would achieve based on a number of hypothetical allocations to the C Fund and the S Fund. For example, investing 20 percent of a participant's total assets in the C Fund implies an effective allocation to REIT stocks of only 0.09 percent (0.20 percent of 0.47 percent), whereas a 20 percent allocation in the S Fund implies an effective allocation to REIT stocks of only 1.49 percent. In both cases, the allocations to REITs are far below the 5-10 percent allocations most often recommended today by professional analysts and investors.

These results mean that a TSP participant either cannot obtain a meaningful REIT allocation by investing only in the C or S Funds or else can achieve meaningful real estate diversification only by over-allocating to the S Fund, thereby violating a cardinal tenet of portfolio diversification. For example, to obtain a five percent exposure to REITs, a TSP participant would need to invest two-thirds of his total TSP assets in the S Fund. Moreover, a 10 percent allocation to REITs cannot be achieved using any combination of current TSP investment funds.

One commonly used approach for assessing the distinct diversification benefits available from adding any investment to a mixed asset portfolio is to determine how correlated are the returns from that investment with the returns from other investments already held in the portfolio. The correlation coefficient is a numerical measure of how closely together the investment returns from one investment move with the investment returns from another investment. The lower the correlation coefficient between one investment already held in the portfolio and a second investment not held in the portfolio, all else equal, the greater are the diversification benefits available from adding the second investment to the portfolio.[12]

Exhibit 9 summarizes the correlation coefficients of the investment returns from all five current TSP index funds as well as from a REIT index fund. The relevant correlation coefficients among the three TSP equity index funds and a REIT index fund are grouped in outline. For the period 1988-2003, the data show that investment returns from the C Fund and the S Fund were relatively highly correlated with a correlation coefficient of 0.88, whereas investment returns from the C Fund and a REIT fund were relatively uncorrelated with a correlation coefficient of 0.23. Similar comparisons hold between the S and I Funds and a REIT fund. The Ibbotson Associates analysis reveals significant diversification benefits from adding a REIT fund to the investment menu of the TSP in part because of the relatively low correlations between the investment returns to REITs and the returns to other TSP equity funds.

I also am including a bibliography of research produced over the past 15 years by investment professionals in both the academic and investment communities. This body of research addresses the investment attributes of real estate that typically distinguish different classes of investments.

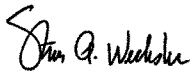
[12] The correlation coefficient is a statistical measure of the joint variation of two series of investment returns, or of how closely the two series move together. The correlation coefficient varies from a low of −1.0, indicating that two series move consistently in the opposite direction, to a high of +1.0, indicating that two series move consistently in the same direction.

In Closing

We hope the information provided in this letter clarifies the questions you have raised. Real estate repeatedly has been demonstrated to be an effective source of portfolio diversification that boosts overall portfolio returns and reduces portfolio risk in long-term retirement savings plans. Institutional managers of most large defined benefit plans and endowments have embraced this opportunity for many years. REITs now provide individual investors with a liquid and cost effective way to incorporate those same investment benefits into their own defined contribution retirement savings plans. A growing proportion of such plans now provide their plan participants with that opportunity. We find no reason why federal employees should be denied this same opportunity.

We would be happy to meet with you and your staff in the near future to further discuss these issues or address any additional questions you may have.

Sincerely,

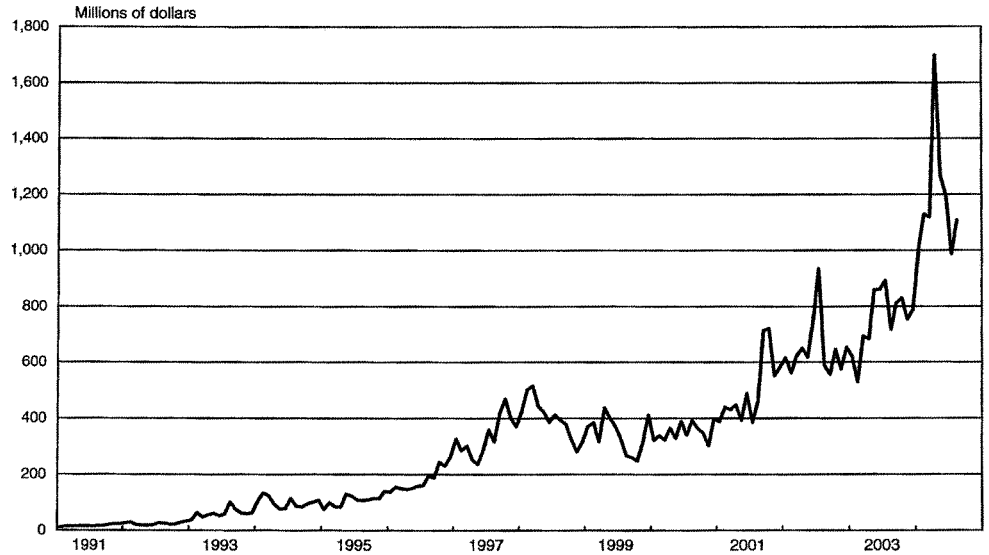


Steven A. Wechsler
President and CEO
National Association of Real Estate Investment Trusts

Exhibit 1

Average Daily Dollar Trading Volume of the NAREIT Composite REIT Index

(January 1991 - August 2004)



Source: National Association of Real Estate Investment Trusts

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Exhibit 2

Thrift Savings Plan Investment Fund Performance

(Five current funds plus REIT fund: 1988 - 2003)

	Average Annual Total Returns (In percent)	
	(1988-2003)	(2000-2003)
I Fund[1]	6.3	-3.6
G Fund	6.8	5.2
F Fund	8.3	8.7
REIT Fund[2]	12.8	20.0
S Fund[1]	13.3	-0.1
C Fund	13.9	-3.7

[1] S and I Fund returns before May 2001 based on underlying index returns net of expenses.
[2] REIT Fund returns for entire period based on equity REIT returns net of expenses.
Source: Federal Retirement Thrift Investment Board, Ibbotson Associates.

Exhibit 3

Thrift Savings Plan Investment Fund Index Performance

(Five current funds plus REIT fund: January 1984 - August 2004)

	Average Annual Total Returns (In percent)	
	(Jan 1984 - Aug 2004)	(Jan 2000 - Aug 2004)
G Fund Index	NA	NA
F Fund Index	9.2	7.5
S Fund Index	12.3	0.2
I Fund Index	12.7	-2.3
REIT Fund Index	13.3	19.1
C Fund Index	13.6	-2.8

Source: Ibbotson Associates, NAREIT.

Exhibit 4

Historical Performance of Major Market Indexes

(1972 - 2003)

Average Annual Total Returns

(In percent)

Periods Ended 2003	S&P 500	Dow Jones	NASDAQ Composite	Russell 2000	MSCI EAFE	Lehman Brothers Bond	Equity REITs
1-Year	28.7	25.3	50.0	47.3	38.6	4.1	37.1
3-Year	-1.8	0.5	-0.9	9.8	0.4	7.6	18.3
5-Year	1.3	4.1	8.7	9.5	2.8	6.7	15.3
10-Year	13.0	12.1	16.4	11.0	6.1	7.1	13.3
15-Year	13.8	12.1	16.9	12.7	5.4	8.5	13.1
20-Year	14.3	12.1	14.5	11.8	13.3	9.5	13.3
25-Year	15.0	11.7	15.5	15.0	12.5	9.7	15.4
30-Year	13.7	10.0	14.3	NA	12.6	NA	15.4
32-Year	13.0	9.3	13.0	NA	12.5	NA	14.2
Risk[1]	16.0	16.8	28.0	19.5	22.7	7.6	17.0

[1] Standard deviation of annual returns.

Source: Ibbotson Associates.

Exhibit 5

Historical Performance of Major Market Indexes

(July 31, 1972 - July 31, 2004)

Compound Annual Total Returns

(In percent)

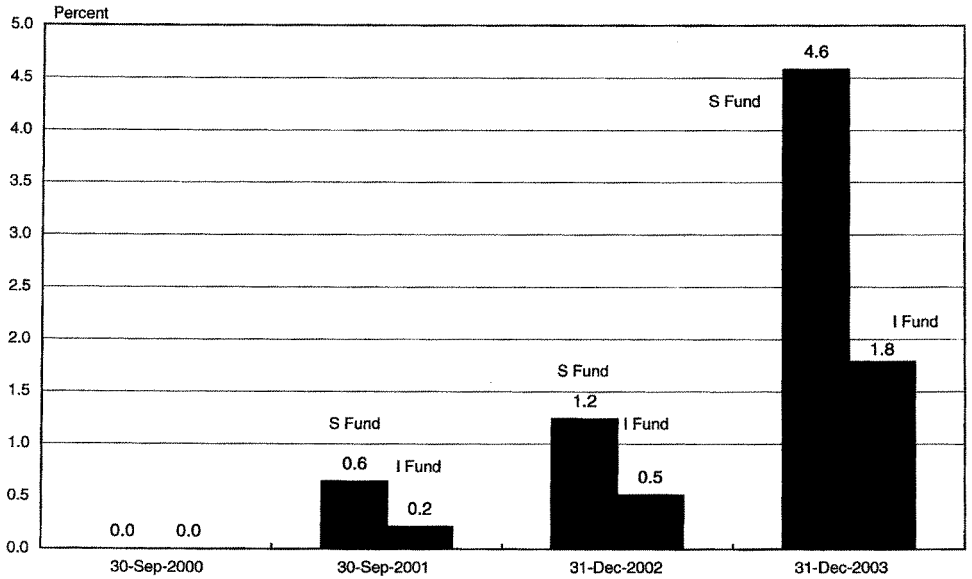
Periods Ended 31-Jul-2004	S&P 500	Dow Jones	NASDAQ Composite	Russell 2000	MSCI EAFE	Lehman Brothers Bond	Equity REITs
1-Year	13.2	9.8	8.8	17.1	25.0	4.8	21.0
3-Year	-1.5	-1.2	-2.3	5.7	3.4	5.9	16.3
5-Year	-2.2	-1.0	-6.5	5.7	-1.2	7.3	15.3
10-Year	11.1	10.4	10.1	10.0	3.6	7.3	12.2
15-Year	10.4	9.3	10.0	9.6	3.3	7.7	11.4
20-Year	13.3	11.7	11.1	11.0	11.1	9.3	12.4
25-Year	13.3	10.4	10.9	12.2	10.3	9.2	13.4
30-Year	12.9	9.0	11.6	NA	10.9	NA	14.9
32-Year	11.2	7.8	8.8	NA	9.5	NA	12.7
Risk[1]	18.0	16.8	28.0	19.5	22.7	7.6	17.0

[1] Standard deviation of annual returns.

Source: Ibbotson Associates.

Exhibit 6

Thrift Savings Plan Investment Allocations to S Fund and I Fund



Source: Federal Retirement Thrift Investment Board.

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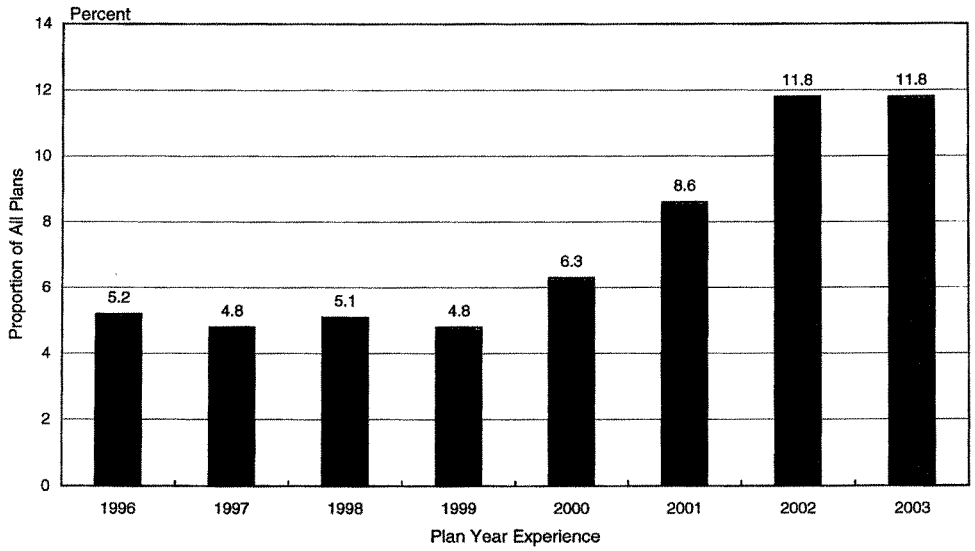
Exhibit 7

Plans Offering a Real Estate Fund for Participant Contributions

(Proportion of All Plans)



Source: Profit Sharing/401(k) Council of America.

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Exhibit Davis 7

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Exhibit 8

Effective Investment Allocations to REITs Through Current TSP Equity Funds
(As of August 31, 2004)

REITs Represented in TSP Equity Funds	Number of REITs in Index	REIT Market Weight[1] (In percent)
C Fund (Standard & Poor's 500 Index)	6	0.47
S Fund (Wilshire Associates 4500 Index)	175	7.45

Effective REIT Allocations When Investing in TSP Equity Funds

Hypothetical C Fund or S Fund Allocations in Percent	Effective REIT Allocations (In percent)	
	C Fund	S Fund
5	0.02	0.37
10	0.05	0.75
15	0.07	1.12
20	0.09	1.49
25	0.12	1.86
30	0.14	2.24
35	0.16	2.61
40	0.19	2.98
45	0.21	3.35
50	0.23	3.73

Sources: National Association of Real Estate Investment Trusts, Standard & Poor's, Wilshire Associates.
[1] Market weightings determined by equity market capitalization.

Exhibit 9

Thrift Savings Plan Investment Fund Performance

(1988-2003)

Correlation Coefficients of Annual Total Returns

	G Fund	F Fund	C Fund	S Fund[1]	I Fund[1]	**REIT Fund**
G Fund	1.00	0.24	0.20	0.05	-0.13	**-0.15**
F Fund		1.00	0.20	0.10	-0.19	**0.20**
C Fund			1.00	0.88	0.64	**0.23**
S Fund[1]				1.00	0.73	**0.42**
I Fund[1]					1.00	**0.19**
REIT Fund						**1.00**

[1] S and I Fund returns before May 2001 based on underlying index returns net of expenses.

Source: Federal Retirement Thrift Investment Board, Ibbotson Associates.

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Peter-Eric Philipp, CFA
Cambridge Investment Research
155 Montgomery St, Suite 1001
San Francisco, CA 94104

415-677-9300
Fax 415-677-9366
www.CIRSF.com

April 29, 2006

The Honorable Jon C. Porter
Chairman
Federal Workforce and Agency Organization Subcommittee
B-373A Rayburn House Office Building
Washington, DC, 20515

Subject: H.R. 1578

This letter is in support of adding a REIT option in the federal Thrift Savings Plan.

As a Chartered Financial Analyst, I rely upon the latest academic research to build client portfolios. REITs are an uncorrelated asset class which will reduce risk and improve returns when added to an investment portfolio. As a result, I recommend that my clients have a 5% to 10% allocation to REITs.

In addition, I have financial planning clients who are federal employees. I believe that it would be beneficial to them if they were able to allocate part of their TSP funds into a REIT option.

H.R. 1578 would extend the prudent principles of asset allocation to include REITs in the options available within the federal Thrift Savings Plan.

Sincerely,

Peter-Eric Philipp, CFA

Investments are not FDIC insured, not bank guaranteed, and may lose value.
Registered Representative, Securities offered through Cambridge Investment Research, Inc., A Broker/Dealer, Member NASD/SIPC
Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., A Registered Investment Advisor.

Peter-Eric Philipp, CFA
Cambridge Investment Research
155 Montgomery St, Suite 1001
San Francisco, CA 94104

415-677-9300
Fax 415-677-9366
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April 29, 2006

The Honorable Danny K. Davis
Ranking Member
Federal Workforce and Agency Organization Subcommittee
B-373A Rayburn House Office Building
Washington, DC, 20515

Subject: H.R. 1578

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Sincerely,

Peter Philipp

Peter-Eric Philipp, CFA

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NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

• • •

REITs: BUILDING DIVIDENDS AND DIVERSIFICATION

June 2, 2006

Jon C. Porter
Chairman
Federal Workforce and Agency Organization Subcommittee
B-373A Rayburn House Office Building
Washington, D.C. 20515

Danny K. Davis
Ranking Member
Federal Workforce and Agency Organization Subcommittee
B-373A Rayburn House Office Building
Washington, D.C. 20515

Re: April 26, 2006 Hearing on H.R. 1578

Dear Mr. Chairman and Ranking Member Davis:

On April 26, 2006, Michael Miles, a financial planner and personal finance columnist for the Federal Times, submitted a statement for the record to the House Subcommittee on the Federal Workforce and Agency Organization of the Government Reform Committee (Subcommittee) regarding the addition of a REIT-based index fund to the Thrift Savings Plan. In the statement and in a subsequent article published in the Federal Times, Mr. Miles provided financial analysis indicating that a REIT-based index fund would provide little or no benefit for TSP participants.

However, Mr. Miles' analysis significantly underestimated the potential benefit of a REIT index fund for investors because the investment returns he assumed for a REIT index fund appreciably understate the factual record of REIT performance. Thus, we are submitting this letter for the record to clarify for the Subcommittee the actual record of REIT performance, the concomitant deficiencies of Mr. Miles' analysis and the financial benefits of a REIT index-based investment option for TSP investors.

In his statement to the Subcomittee, Mr. Miles asserted that a REIT fund should be expected to provide a compound annual return between 8% and 9% per year, and he cited data in a published monograph as supporting evidence for his assertion.[1] In his subsequent analysis, as published in the Federal Times, Mr. Miles assumed an annual return for a REIT fund of 9.8%, although the analysis provided no supporting evidence for this assumption. It is noteworthy that these assumed investment returns are some five to seven percentage points per year less than actual REIT index returns (14.7%) over 34 years ended 2005.

[1] A Perspective on Long-Term Real Estate Returns: United States, The Brandes Institute, April 2004.

• • •

1875 Eye Street, NW, Suite 600, Washington, DC 20006-5413
Phone 202-739-9400 Fax 202-739-9401 www.nareit.com www.investinreits.com

Thus, Mr. Miles guaranteed an outcome to his analysis that would substantially diminish or eliminate the attractiveness of a REIT index fund.

Because the underlying aggregate data series cited by Mr. Miles as supporting evidence for his outlook pertaining to commercial real estate returns includes absolutely no REIT stock investment return data, it is extremely difficult to understand his reliance on this data series. REITs have been in existence since the 1960s, and their investment performance has been accurately tracked and reported since 1972. However, instead of using these widely available and accepted data, at least over the 34 years for which they are available, Mr. Miles referred to real estate return data from the monograph published by The Brandes Institute, which, in turn, was based on an amalgamation of data published by Professor Elroy Dimson of the London Business School – *a best-effort body of data that includes no REIT return data and never was intended as a tool for projecting REIT investment performance.*

REITs are companies that own and manage, or finance, *commercial* real estate, such as office buildings, shopping centers and other types of commercial properties. However, the data series published by Brandes and extending back to 1926, a point stressed by Mr. Miles, uses a variety of sources, but is mainly dependent on farm and house return data, not commercial real estate investment return data, for most of the period. In fact, at least one-half of the time period covered in the Brandes monograph includes no commercial real estate investment return data whatsoever (see Attachment 1).

Equally alarming, while the data cited by Mr. Miles do contain commercial real estate investment returns for about forty percent of the time period since 1926, they include no REIT return data whatsoever, even though REIT returns are available for the exact period in question.

Adding to the concern about his reference to these data, the commercial real estate investment return data cited by Mr. Miles represent unleveraged, appraisal-based investment returns for primarily four types of property, while REIT return data represent actual leveraged, market-based investment returns for all types of property. Given the fact that the existing TSP equity options also represent actual leveraged, market-based investment returns, as would a REIT-based real estate investment option, it is especially surprising that Mr. Miles chose to emphasize in his statement to the Subcommittee real estate returns that are unleveraged and non-market based.

In summary, Mr. Miles set out to explore the question of what one could expect from a REIT based investment option in the TSP, and then proceeded to answer the question using an expected investment return five to seven percentage points per year below the actual average annual return delivered by REITs over the past 34 years, a record he apparently chose to exclude from his analysis.

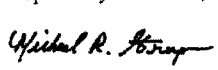
In addition, data for the majority of the time period cited by Mr. Miles contain no commercial real estate representation whatsoever; and, to the extent the data do incorporate commercial real estate returns, they do so on a basis not comparable to the other TSP equity fund options. Given

his choice of data on which to base his assumptions, it is not hard to understand why Mr. Miles' conclusions ventured so far from the norm.

Quality work based on actual market-based REIT investment returns already has been undertaken by Ibbotson Associates to provide investors with an idea of what they might expect over long investment horizons from a REIT option in the TSP. The analysis shows that, for the 1972-2005 period for which these data are available, REIT index returns outperformed index returns of the current TSP investment funds or of the benchmarks on which the TSP funds are based. The REIT index's average annual total return of 14.7% for this period compares with 12.8% for the I Fund index and 12.6% for the C Fund index. The S Fund index, established in 1984, delivered an average annual total return of 13.1% from inception through 2005; while the F Fund index, established in 1976, delivered 9.0% (see Attachment 2).

More important, Ibbotson's analysis shows that a 10% REIT allocation added in 1988 (when the TSP was established) to a portfolio typical of today's TSP participants would have increased the value of the portfolio by 7.65% through the end of 2005 (see Attachment 3). Adding a 20% REIT allocation to the portfolio would have increased its value by 15.43% over the same 18-year period – results that are both positive and compelling for TSP investors.

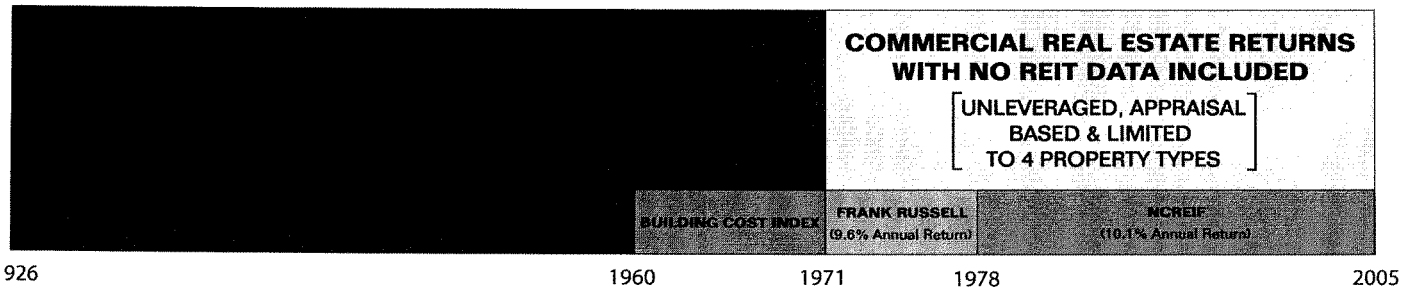
Respectfully submitted,



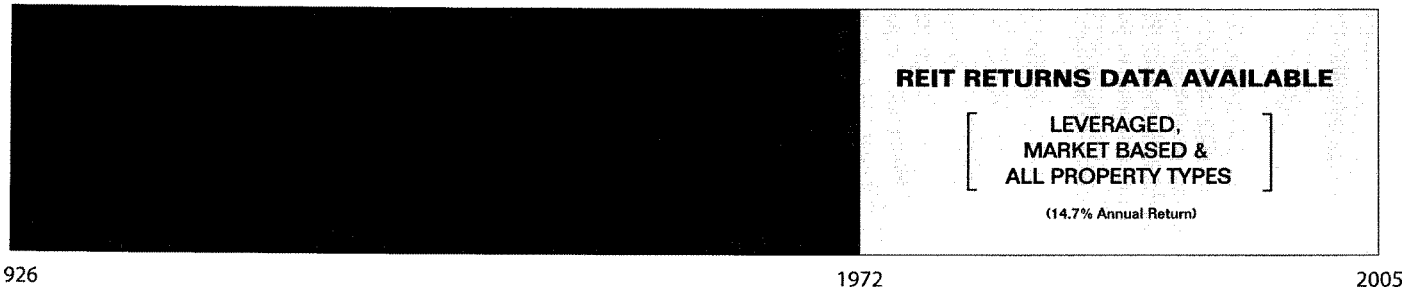
Michael R. Grupe, Ph.D.
Executive Vice President, Research and Investor Outreach

Attachment 1
Timelines for the Development of REIT Returns in the U.S.
1926 - 2005

A. Timeline of source data compiled by Goyal and Reid and cited by Miles to estimate REIT investment returns in the U.S.



A. Timeline of actual market-based REIT investment returns in the U.S.



ibbotson

Attachment 2: Actual Market-based Returns of TSP Fund Indexes

	Average Annual Total Returns (1988 - 2005)	Average Annual Total Returns (1972 - 2005)
G Fund[1]	6.5	NA
I Fund Index	7.9	12.8
F Fund Index	7.9	9.0
C Fund Index	13.3	12.6
S Fund Index[2]	13.8	13.1
REIT Fund Index[3]	**14.1**	**14.7**

[1] Only fund-level returns are available for the G Fund.
[2] S Fund index begins 1984.
[3] REIT Fund index returns based on FTSE NAREIT Equity REIT Index.

Source: Federal Retirement Thrift Investment Board, Ibbotson Associates

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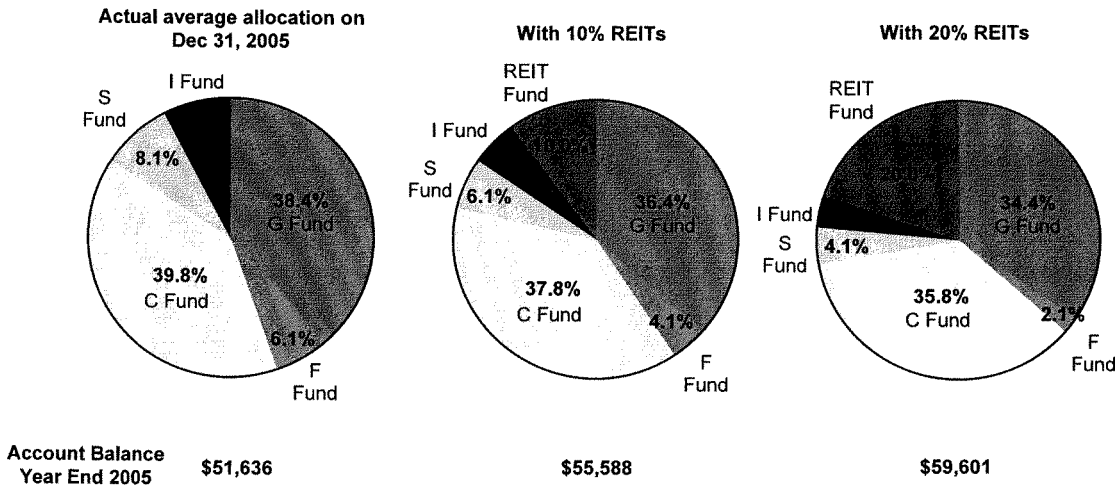
Attachment 3: Growth of $10,000 in TSP With and Without REITs

Using actual returns for the five current funds plus a REIT index fund: 1988–2005

Actual average participant allocations before and after adding a REIT allocation[1]



[1]Note: Investment allocations should not be interpreted as recommended allocations but only as allocations pertaining to different levels of risk.

Source: Federal Retirement Thrift Investment Board, Ibbotson Associates

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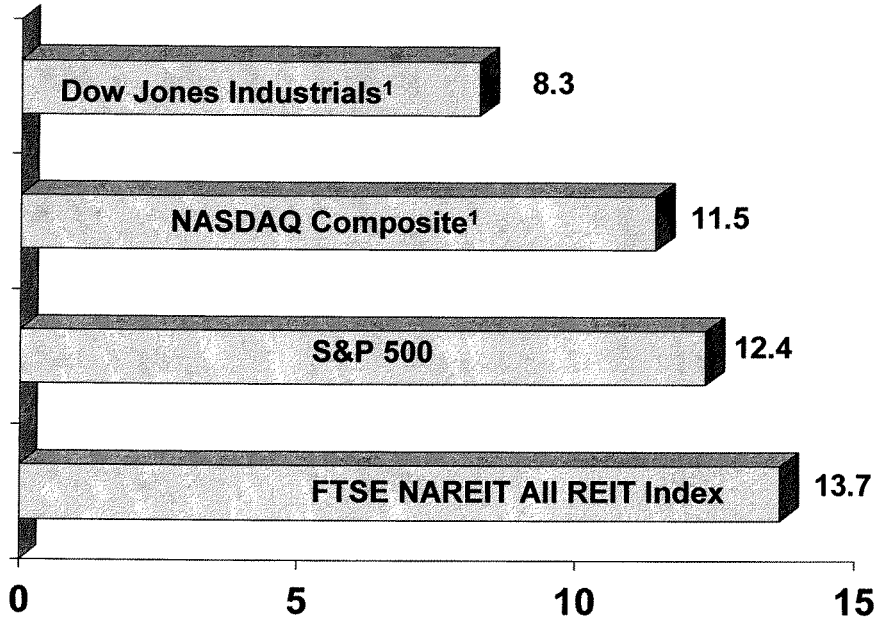
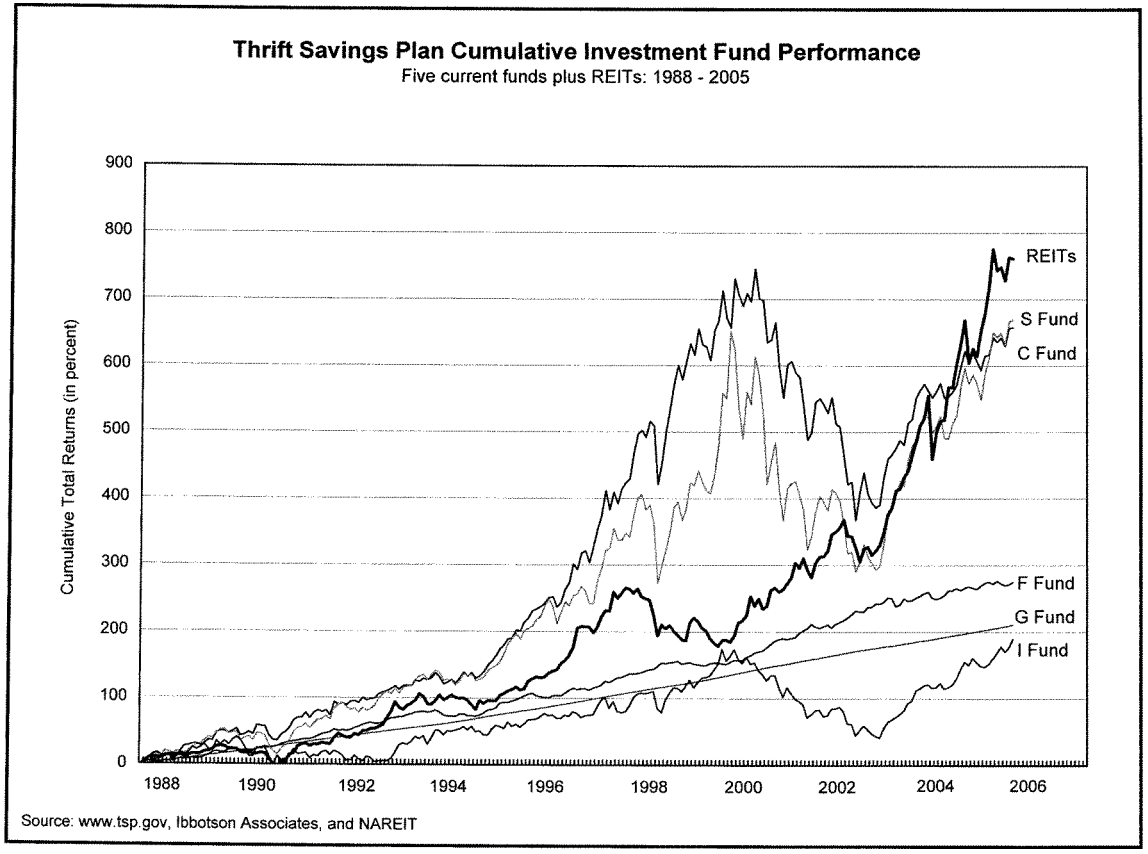
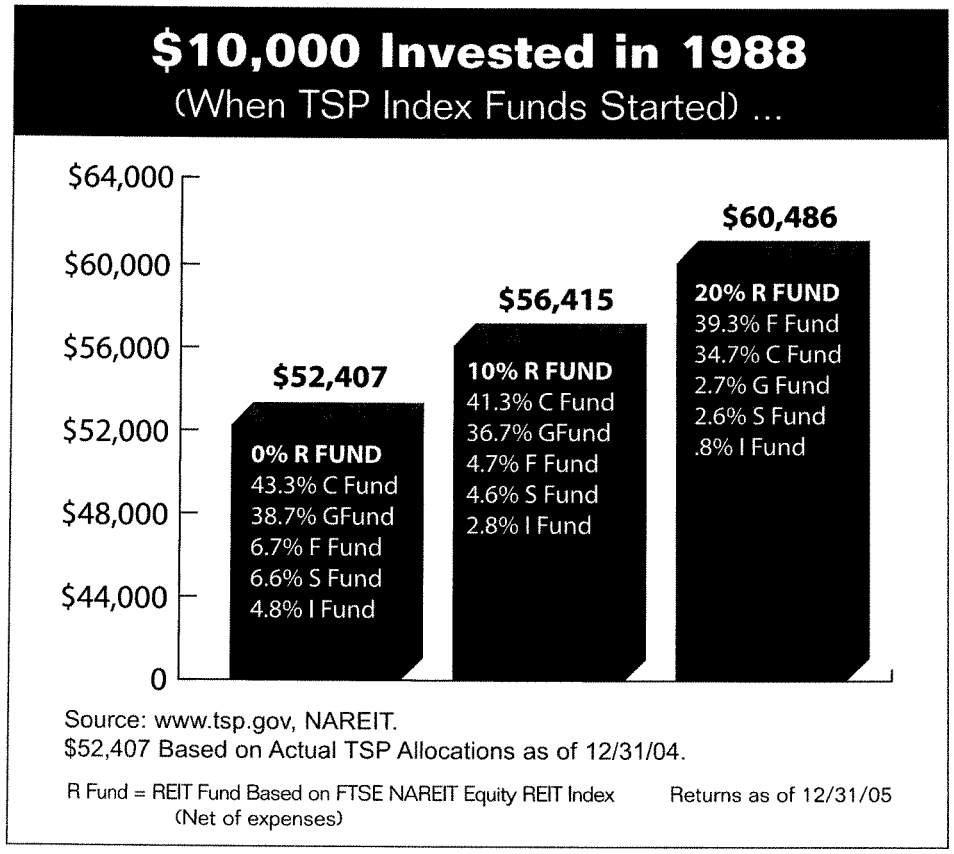
Performance
REITs Outperform Leading U.S. Benchmarks

Compound annual total returns in percent: March 1976 – March 2006

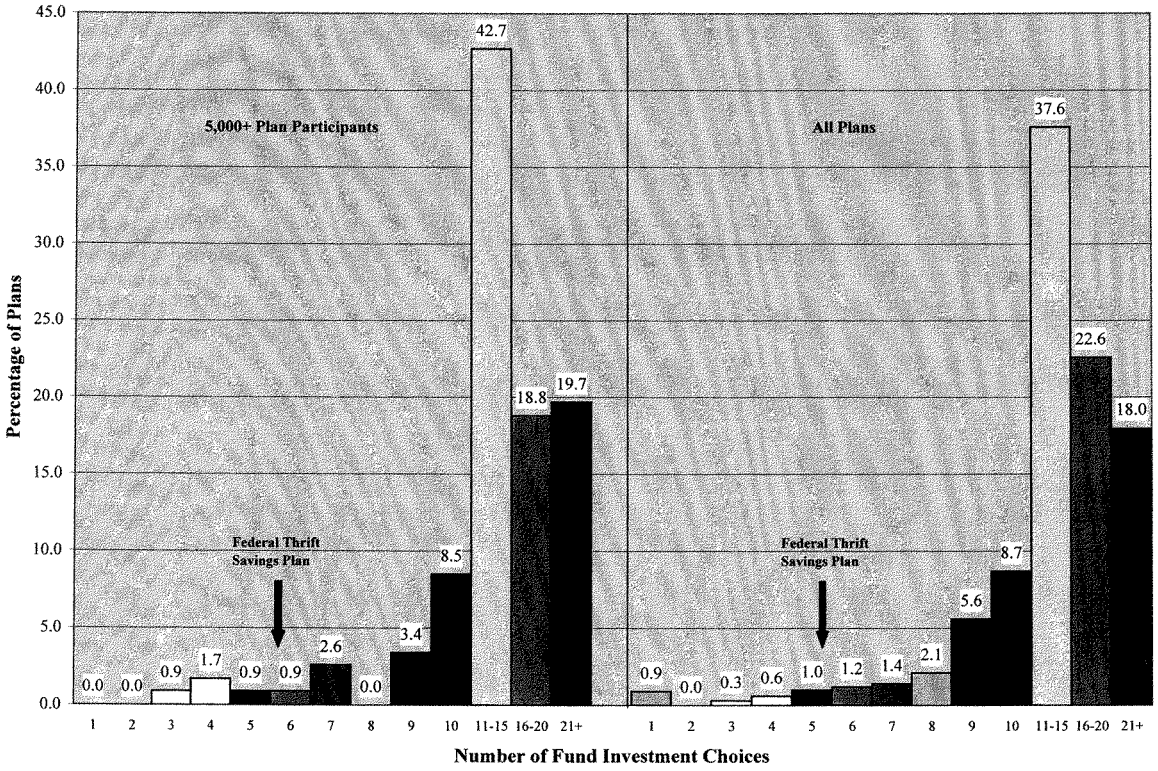


[1]Price only returns


Thrift Savings Plan Cumulative Investment Fund Performance
Five current funds plus REITs: 1988 - 2005
Cumulative Total Returns (in percent)
900
800
700
600
500
400
300
200
100
0
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
REITs
S Fund
C Fund
F Fund
G Fund
I Fund
Source: www.tsp.gov, Ibbotson Associates, and NAREIT


$10,000 Invested in 1988
(When TSP Index Funds Started) ...
$64,000
$60,000
$56,000
$52,000
$48,000
$44,000
0
$52,407
0% R FUND
43.3% C Fund
38.7% GFund
6.7% F Fund
6.6% S Fund
4.8% I Fund
$56,415
10% R FUND
41.3% C Fund
36.7% GFund
4.7% F Fund
4.6% S Fund
2.8% I Fund
$60,486
20% R FUND
39.3% F Fund
34.7% C Fund
2.7% G Fund
2.6% S Fund
.8% I Fund
Source: www.tsp.gov, NAREIT.
$52,407 Based on Actual TSP Allocations as of 12/31/04.
R Fund = REIT Fund Based on FTSE NAREIT Equity REIT Index
(Net of expenses)
Returns as of 12/31/05

Number of 401(k) Investment Choices Available for Participant Contributions by Plan Size



Source: Profit Sharing/401k Council of America's 48th Annual Survey of Profit Sharing and 401(k) Plans (2004)

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

May 15, 2006

Ms. Tania Shand
Staff Member
Subcommittee on the Federal Workforce
and Agency Organization
Washington, D.C. 20515

Dear Tania:

As you requested with regard to Congressman Van Hollen's question at the April 26, 2006, Subcommittee hearing, enclosed please find the request for proposals that the Federal Retirement Thrift Investment Board issued on April 29, 2005, and the resulting contract with Ennis Knupp + Associates, which was awarded on September 15, 2005.

I am also enclosing an April 21, 2006, memorandum from Ennis Knupp regarding the investment fund alternatives review. As you know, this is the fourth task described in our August 11, 2005, letter to Congressman Danny Davis and the other committee and subcommittee leaders. We have continued to address the matters described in that letter in the sequence and time frame we described.

As you requested, I am sending a copy of this material to the Subcommittee's Majority staff.

Sincerely,

Thomas J. Trabucco
Director, External Affairs

Enclosures

cc: Mr. Patrick Jennings

ENNISKNUPP
25 Years

MEMORANDUM

To: Ms. Tracey Ray
Federal Retirement Thrift Investment Board
From: Russ Ivinjack
Neeraj Baxi, CFA
Date: April 21, 2006

Re: Investment Fund Alternatives Review

One of the projects that we will be working on during 2006 is reviewing potential investment fund additions to the Thrift Savings Plan (TSP). In this memorandum we outline several of the key criteria we plan to use in determining the investment categories/asset classes the TSP should consider as potential investment fund additions.

Prior to our discussion of the criteria, we believe it is important for us to express our belief that TSP participants are well served by the investment funds currently offered. This is particularly true given the recent addition of the L Funds, which serve as a "one-stop" investment alternative for TSP participants.

Evaluation Criteria

While there are numerous criteria to consider when evaluating the types of investment alternatives to offer in a participant-directed defined contribution plan, we believe the following three criteria (individually and collectively) are among the most relevant for the TSP to consider:

- Major diversified asset classes/categories not currently offered as investment options
- Asset class/category is large enough for the TSP to invest in
- Practices of peers

We discuss the three criteria in more detail below.

Ennis Knupp + Associates
10 South Riverside Plaza, Suite 1600
Chicago, Illinois 60606-3709

vox 312 715 1700
fax 312 715 1952
www.ennisknupp.com

Major Diversified Asset Classes/Categories Not Currently Offered to Participants

We believe it is worthwhile to consider the major diversified capital markets that are not currently offered to TSP participants. The TSP currently provides participants the ability to invest in three of the World's largest capital markets (U.S. stock, U.S. bonds and non-U.S. developed markets stock), but not all (e.g., non-dollar denominated debt or emerging market equity). For the major diversified asset classes not currently offered to participants, we believe a review of the rationale why such an asset class/category would be or would not be an appropriate asset class/category to add as an investment option is prudent.

Our review would take into account the advantages and disadvantages of offering an asset class/category individually as well as how it could possibly allow participants to form better overall portfolios.

Asset Class/Category is Large Enough for the TSP Invest In

Given the extraordinary asset size of the TSP, any investment alternative offered should represent an asset class/category of such significance that the likelihood of the TSP becoming a disproportionately large investor of the asset class/category is minimized. Several of the measures we would evaluate are:

- Size of the asset class/category in terms of market capitalization
- Sector diversification within the asset class/category if applicable
- Number of securities that comprise the market /category
- Liquidity of the market/category

We would also review the availability of daily valued index products within the asset class/category. This is a relevant criterion as the TSP has historically only offered index products and any product that the TSP may offer needs to offer daily liquidity so that it integrates easily with the administration of the TSP.

Practices of Peers

In making decisions about the number and types of investment options to offer in a participant-directed defined contribution plan, it is worthwhile to be aware of contemporary practices. This can help serve as a guide as participants will likely compare the type of options offered in their plan to those of their spouse's, friends and neighbors.

This does not mean that the TSP should be compelled to offer funds just because peer plans offer certain fund types. Rather the types of options to consider should represent a diversified opportunity set that may provide participants exposures not currently available and allow them to form better portfolios.

We expect to review several broad industry surveys for information on participant-directed defined contribution plan practices in our report for the TSP.

Summary

We recognize that there are numerous criteria to consider when deciding upon the types of investment options to offer in a participant-directed defined contribution plan and are open to reviewing many more than what we discussed. We, however, believe the criteria we outlined above are among the most relevant for the TSP and should assist in framing the review we will conduct for the TSP.

We look forward to discussing this memorandum with you.

SOLICITATION, OFFER AND AWARD

1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700) — RATING — PAGE 1 OF PAGES 127

2. CONTRACT NUMBER	3. SOLICITATION NUMBER	4. TYPE OF SOLICITATION	5. DATE ISSUED	6. REQUISITION/PURCHASE NUMBER
TIB-2005-C-003	TIB-2005-R-003	☐ SEALED BID (IFB) ☒ NEGOTIATED (RFP)	4/29/2005	TBS050822

7. ISSUED BY — CODE
FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H STREET N.W., SUITE 200
WASHINGTON, DC 20005

8. ADDRESS OFFER TO *(If other than Item 7)*
SAME AS BLOCK 7

NOTE: In sealed bid solicitations "offer" and "offeror" mean "bid" and "bidder".

SOLICITATION

9. Sealed offers in original and 5 copies for furnishing the supplies or services in the Schedule will be received at the place specified in Item 8, or if handcarried, in the depository located in BLOCK 7 until 03:30 *(Hour)* local time 06/01/2005 *(Date)*

CAUTION: LATE Submissions, Modifications, and Withdrawals: See Section L, Provision No. 52.214-7 or 52.215-1. All offers are subject to all terms and conditions contained in this solicitation.

10. FOR INFORMATION CALL:	A. NAME	B. TELEPHONE *(NO COLLECT CALLS)* AREA CODE	NUMBER	EXT.	C. E-MAIL ADDRESS
	ROBERT BATTERSBY	202	942-1693		RBATTER@TSP.GOV

11. TABLE OF CONTENTS

(X)	SEC.	DESCRIPTION	PAGE(S)	(X)	SEC.	DESCRIPTION	PAGE(S)
		PART I - THE SCHEDULE				PART II - CONTRACT CLAUSES	
X	A	SOLICITATION/CONTRACT FORM	1	X	I	CONTRACT CLAUSES	7
X	B	SUPPLIES OR SERVICES AND PRICES/COSTS	9			PART III - LIST OF DOCUMENTS, EXHIBITS AND OTHER ATTACH.	
X	C	DESCRIPTION/SPECS./WORK STATEMENT	7	X	J	LIST OF ATTACHMENTS	1
	D	PACKAGING AND MARKING				PART IV - REPRESENTATIONS AND INSTRUCTIONS	
X	E	INSPECTION AND ACCEPTANCE	1	X	K	REPRESENTATIONS, CERTIFICATIONS AND OTHER STATEMENTS OF OFFERORS	6
X	F	DELIVERIES OR PERFORMANCE	4				
X	G	CONTRACT ADMINISTRATION DATA	4	X	L	INSTRS., CONDS., AND NOTICES TO OFFERORS	11
X	H	SPECIAL CONTRACT REQUIREMENTS	4	X	M	EVALUATION FACTORS FOR AWARD	7

OFFER *(Must be fully completed by offeror)*

NOTE: Item 12 does not apply if the solicitation includes the provisions at 52.214-16, Minimum Bid Acceptance Period.

12. In compliance with the above, the undersigned agrees, if this offer is accepted within 120 calendar days *(60 calendar days unless a different period is inserted by the offeror)* from the date for receipt of offers specified above, to furnish any or all items upon which prices are offered at the price set opposite each item, delivered at the designated point(s), within the time specified in the schedule.

13. DISCOUNT FOR PROMPT PAYMENT *(See Section I, Clause No. 52.232-8)*	10 CALENDAR DAYS (%)	20 CALENDAR DAYS (%)	30 CALENDAR DAYS (%)	CALENDAR DAYS (%)

14. ACKNOWLEDGMENT OF AMENDMENTS *(The offeror acknowledges receipt of amendments to the SOLICITATION for offerors and related documents numbered and dated):*

AMENDMENT NO.	DATE	AMENDMENT NO.	DATE

15A. NAME AND ADDRESS OF OFFEROR — CODE — FACILITY
Ennis Knupp + Associates
10 South Riverside Plaza, Suite 1600
Chicago, IL 60606-3709

16. NAME AND TITLE OF PERSON AUTHORIZED TO SIGN OFFER *(Type or print)*
Russell Ivanjack, Principal

15B. TELEPHONE NUMBER — AREA CODE 312 — NUMBER 715-1700 — EXT.

☐ 15C. CHECK IF REMITTANCE ADDRESS IS DIFFERENT FROM ABOVE - ENTER SUCH ADDRESS IN SCHEDULE.

17. SIGNATURE — 18. OFFER DATE 06/01/2005

AWARD *(To be completed by Government)*

19. ACCEPTED AS TO ITEMS NUMBERED	20. AMOUNT	21. ACCOUNTING AND APPROPRIATION
ALL	$50,000.00	TBS050822/TIB-2005-0850

22. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION: ☐ 10 U.S.C. 2304(c) ( ) ☐ 41 U.S.C. 253(c) ( )

23. SUBMIT INVOICES TO ADDRESS SHOWN IN *(4 copies unless otherwise specified)* — ITEM G.3.

24. ADMINISTERED BY *(If other than Item 7)* — CODE

25. PAYMENT WILL BE MADE BY — CODE
See Block 7.

26. NAME OF CONTRACTING OFFICER *(Type or print)*
Robert J. Battersby

27. UNITED STATES OF AMERICA *(Signature of Contracting Officer)* — 28. AWARD DATE 09/15/2005

IMPORTANT - Award will be made on this Form, or on Standard Form 26, or by other authorized official written notice.

AUTHORIZED FOR LOCAL REPRODUCTION
Previous edition is unusable

STANDARD FORM 33 (REV. 9-97)
Prescribed by GSA - FAR (48 CFR) 53.214(c)

Section B - Supplies or Services and Prices/Costs

B.1. The Agency is seeking a contractor to provide ongoing expert consulting advice concerning certain aspects of its investment program and the procurement of investment services on a task order basis. **(NOTE: SUCCESSFUL OFFERORS UNDER THIS CONTRACT WOULD BE PROHIBITED FROM BIDDING FOR THE INVESTMENT MANAGEMENT OF ANY OF THE TSP INVESTMENT FUNDS.)**

B.2. Cost of Base Period and Options.

B.2.1. Because this contract may involve future tasks similar to those described in the statement of work, Offerors are asked to propose a single hourly rate for their work on any tasks that may be assigned under this contract. This single hourly rate should be based on the Offeror's best estimate of the occupational categories and skill levels to be provided. It should also be based on the Offeror's best estimate of proportionate use of these occupational categories and skill levels. The single hourly rate should include direct labor, appropriate overheads, general and administrative costs, and profit.

B.2.2. The contract will consist of a three year base period and two one year options. Rates may be proposed for each year of the base period. This allows rates to be adjusted annually on the anniversary of contract award.

Base Period	0001 Base Year 1 Hourly Rate	$350.00
Base Period	0002 Base Year 2 Hourly Rate	$360.00
Base Period	0003 Base Year 3 Hourly Rate	$370.00
Option Year 1	1001 Option Year 1 Hourly Rate	$380.00
Option Year 2	2001 Option Year 2 Hourly Rate	$390.00

B.3 TRAVEL. Estimated travel expenses shall be shown separately. Travel expenses for contractor personnel must have prior Agency approval and will be reimbursed in accordance with FAR 31.205-46, Travel Costs, and in accordance with the Federal Travel Regulations at 41 C.F.R. Part 301.

Section C - Description/Specifications/Work Statement

C.1. Background

C.1.1. The Thrift Savings Plan (TSP) is a daily valued, participant directed, defined contribution plan similar to private sector 401(k) plans. Civilian employees of the United States government and uniformed services members may participate. The Federal Retirement Thrift Investment Board (Agency) is an independent Federal Agency charged by statute with administering the TSP.

C.1.2. The TSP is the largest defined contribution plan in the world, with over 3.4 million participants and over $152 billion in assets as of December 31, 2004. Monthly contributions to the plan average $1.4

billion. The TSP currently has the following five investment funds, which are established by statute:

a. **The Government Securities Investment Fund (G Fund)** is invested in short-term nonmarketable U.S. Treasury securities that are specially issued to the TSP. The G Fund interest rate, set monthly, equals the average of market rates of return on U.S. Treasury marketable securities outstanding with four or more years to maturity. The G Fund balance was approximate $59 billion as of December 31, 2004.

b. **The Fixed Income Index Investment Fund (F Fund)** is invested in a portfolio of fixed income securities designed to track the Lehman Brothers U.S. Aggregate (LBA) index. The F Fund balance was approximately $10 billion as of December 31, 2004.

c. **The Common Stock Index Investment Fund (C Fund)** is invested in a portfolio of stocks designed to track the S&P 500 Index. The C Fund balance was approximately $66 billion as of December 31, 2004.

d. **The Small Capitalization Stock Index Investment Fund (S Fund)** is invested in a portfolio of stocks designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund balance was approximately $10 billion as of December 31, 2004.

e. **The International Stock Index Investment Fund (I Fund)** is invested in a portfolio of stocks designed to track Morgan Stanley's Europe, Australasia, Far East (EAFE) stock index. The I Fund balance was approximately $7 billion as of December 31, 2004.

C.1.3. Attachment B is the TSP Fund Information package, dated March 2005, which describes each of the investment funds and its performance in more detail. In mid-2005, the TSP plans to introduce five target date asset allocation funds ("lifecycle funds"). These lifecycle funds are asset allocation models composed entirely of combinations of the existing five TSP investment funds.

C.1.4. All five TSP investment funds are daily-valued with daily share prices. The G Fund is managed in-house by Agency staff. Assets of the other four investment funds are currently managed by Barclays Global Investors (BGI) and are invested in daily-valued collective investment trusts. Custodial services for BGI's collective trusts are provided by Investors Bank and Trust Company, through a subcontract with BGI. BGI operates a securities lending program, with the physical securities owned by the collective trusts. BGI shares securities lending income with the collective trusts. As a result, the investors in the trusts receive a portion of the securities lending income in the form of increases in fund share prices.

C.1.5. TSP contributions and other transactions, including interfund transfers, are processed each business day. TSP participants have a daily cutoff of 12 noon Eastern Time for making transactions to be posted at that day's closing share price. Daily trades are estimated between 12 noon and 2 pm eastern time, and the investment funds are invested on a "pre-notified" (rather than a "post-notified") basis).

There is considerable variation in the cash flows into and out of each of the investment funds on a daily basis. Attachment C is a table with information on average and maximum cash flows into and out of each of the investment funds during 2004.

C.1.6. Historically, TSP investment management expenses have been quite low. Attachment D is the TSP audited financial statements for 2004, which has a line showing the investment management expenses. Securities lending also provides substantial income to the TSP. In 2004, TSP funds received approximately $12 million in securities lending income.

C.1.7. TSP investment fund managers have always been selected through competitive procurement actions. These occurred most recently in 1999 for the S and I Funds and in 2000 for the F and C Funds. Implementation of the S and I Funds was delayed until May of 2001. The current investment management contracts are scheduled to expire as follows: C and F Funds on April 30, 2006; S and I Funds on December 31, 2006. Selection criteria for the most recent procurement actions for the F, C, S, and I Funds are attached as Attachment E.

C.2. Work To Be Performed

C.2.1. Interested Offerors must respond to all portions of the QUESTIONNAIRE FOR CONSULTING SERVICES, Attachment A, thereby providing a comprehensive description of their qualifications and experience to the Board. If an Offeror believes that its capabilities are limited to specific portions of the solicitation's requirements, the Offeror should so state; however, this will adversely affect your chances for award.

C.2.2. The Agency is seeking a contractor to provide ongoing expert consulting advice concerning certain aspects of its investment program and the procurement of investment services on a task order basis. Examples of areas where the Agency might seek advice are listed below. (Note: Successful Offerors under this contract would be prohibited from bidding for the investment management of any of the TSP investment funds.)

1. A risk assessment of the investment practices and securities lending practices of the current TSP investment management arrangement and of similar practices contemplated in the future.

2. Assistance in the selection of investment managers for the F, C, S, and I Funds, including:

   a. Appropriate indexes to follow;

   b. Appropriate minimum technical qualifications;

   c. Appropriate evaluation factors; and

   d. Evaluation of proposals.

3. A cost/benefit analysis of the use by the TSP of a separate account structure versus the use of commingled accounts for investing each of the TSP funds.

4. Whether the TSP should seek a custody relationship for one or more of the funds that is separate from the investment management function.

5. Whether the TSP should seek a contract for securities lending services for one or more of the funds that is separate from the investment management function.

C.2.3. The contractor shall accept responsibility as a fiduciary pursuant to § 8477 of Title 5 of the United States Code for its acts or omissions in connection with the advice provided to the Plan. The contrator shall comply with all fiduciary responsibilities prescribed by law.

Section D - Packaging and Marking

Not applicable.

Section E - Inspection and Acceptance

E.1. 52.252-2 Clauses Incorporated By Reference (Feb 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.246-5 Inspection of Services-Cost-Reimbursement (Apr 1984)

Section F - Deliveries or Performance

F.1. DELIVERABLES Deliverables will be specified in the individual task orders.

F.2. PERFORMANCE Period of performance. The term of this contract is three years, with two one-year renewable options.

F.3. TIME OF DELIVERY. Time of delivery for any deliverables will be specified in the individual task orders.

F.4. 52.252-2 Clauses Incorporated By Reference (Feb 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.242-15 Stop-Work Order (Aug 1989) *Alternate I (Apr 1984)*

Section G- Contract Administration Data

G.1. CONTRACTUAL INFORMATION

Contractual interpretation and assistance may be obtained by contacting:

Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, DC 20005-3952

Attn: Robert Battersby
Phone: (202) 942-1693
E-Mail: RBATTER@tsp.gov

G.2. CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE

a. The Contracting Officer hereby designates the below named individual as the Contracting Officer's Technical Representative (COTR).

Name: Ms. Tracey Ray
Address: Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, DC 20005-3952
Phone: 202-942-1665

b. The COTR is responsible for administering the performance of work under this contract. In no event, however, will any understanding, agreement, modification, change order, or other matter deviating from the terms of this contract be effective or binding upon the Agency unless formalized by proper contractual documents executed by the Contracting Officer. The COTR is responsible for:

1. Monitoring the Contractor's progress, including the surveillance and assessment of performance, and recommending to the Contracting Officer changes in requirements;

2. Interpreting the scope of work;

3. Performing inspections and acceptances required by this contract; and,

4. Assisting the Contractor in the resolution of technical problems encountered during the performance of the contract.

c. The Contracting Officer is responsible for directing any changes in the terms, conditions, or amounts cited in the contract.

d. In order for the Contractor to rely upon guidance from the COTR, the guidance must:

1. Be consistent with the description of work set forth in the contract;

2. Not constitute new assignments of work or a change to the expressed terms, conditions, or specifications incorporated into the contract;

3. Not constitute a basis for an extension to the period of performance or contract delivery schedule; and,

4. Not constitute a basis for any increase in the contract cost.

e. The COTR may be changed by the Agency at any time without prior notice to the Contractor. Written notice to the Contractor will be given by the Contracting Officer to effect any change in COTR.

f. If in the opinion of the Contractor, any instruction or direction issued by the COTR is not provided for in any of the provisions of the Contract, the Contractor shall not proceed but shall notify the Contracting Officer in writing within five (5) working days after the receipt of any such instruction or direction and shall request the Contracting Officer to modify the contract accordingly. Upon receiving such notification from the Contractor, the Contracting Officer shall issue an appropriate contract modification or advise the Contractor in writing that, in his/her opinion, the technical direction is within the scope of this clause and does not constitute a change under the Changes Clause of the contract. The Contractor shall thereupon proceed immediately with the direction given.

g. A failure of the parties to agree upon the nature of the instruction or direction or upon the contract action to be taken with respect thereto shall be subject to the provisions of the contract clause titled "Disputes."

G.3. SUBMISSION OF INVOICES

Invoices submitted for payment shall conform to the following requirements:

a. All invoices must contain contractor's EIN number.

b. All invoices must contain a "remit to" address.

c. Submit all invoices to:

Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, DC 20005-3952
Attn: Office of Accounting

G.4. INCORPORATION OF CONTRACTOR'S PROPOSAL

It is understood and agreed that the Contractor shall, in meeting the requirements of this contract, perform the work in accordance with its proposal to the Board provided however, that to the extent that any provisions of the Clauses set forth herein are in conflict or inconsistent with any provisions of said proposal, the provisions of this con-

tract shall be controlling and shall supersede the provisions of said proposal.

G.5. ORDER OF PRECEDENCE

The order of precedence for interpretation of the terms, conditions and requirements of this contract shall be as follows:

a. Section A of the contract;
b. Sections B, C, E, F, G, and H of the contract;
c. Section I of the contract; and,
d. Contractor's proposal, as clarified and amended.

Section H - Special Contract Requirements

H.1. BUSINESS PRACTICES AND CONTRACT REQUIREMENTS

It is expected that the practices described by the Contractor in its response to the Request for Proposals shall be employed in its performance of the requirements of Section C of the contract. Written notice must be received in advance by the Contracting Officer for approval of any changes to these practices.

H.2. ADVERTISING AND RELEASING OF INFORMATION

The contractor must not publicize, advertise, or otherwise announce its selection by the Agency without the prior written approval of the Agency. Also, the Contractor may not release information or report on its performance under the contract without the prior written approval of the Agency.

H.3. KEY PERSONNEL

a. The Contractor must include in its proposal, by name and capacity, the key personnel to be assigned to perform and carry out all phases of work under this contract. The Contractor's key personnel include the following:

Name	Capacity
Russell K. Ivinjack	Principal
Neeraj Baxi	CFA, Principal
Sudhakar Attaluri	Investment Analyst

b. The individuals named above are considered key personnel and are essential for the successful completion of all work assigned under this contract. In the event any individual on the list of key personnel is to be removed or diverted from this contract, the Contractor must (1) notify the Contracting Officer; (2) supply written justification as to why the individual(s) is being removed or diverted; and, (3) provide resume of the proposed substitute or replacement including the education, work experience, etc., of each new person for Agency approval. All notifications

and other information must be submitted to the Contracting Officer at least 14 calendar days in advance of the action.

c. The Contractor must not, under any circumstances, remove or divert key personnel unless prior written authorization has been granted by the Contracting Officer. The person replacing the key person must have the same or higher qualifications and experience as the person replaced.

H.4. REIMBURSEMENT OF TRAVEL EXPENSES

Travel expenses incurred under this contract and invoiced may not exceed the applicable Federal Travel Regulations.

H.5. CONFIDENTIAL INFORMATION

All information from data files on participant accounts provided to the contractor is confidential and is subject to the Privacy Act. The Contractor and contractor personnel shall maintain this information in strict confidence and shall not disclose this information, or any information obtained as the result of its performance of this contract, to any person or entity, other than employees or bonafide contractors of the Federal Retirement Thrift Investment Board, without the prior written approval of the Agency.

The contractor and contractor personnel shall not disclose this information to any person or entity or otherwise make any improper use of this information during or after the performance period of this contract. The contractor and contractor personnel shall maintain this information in strict confidence and shall make no entry into data files, except as necessary in the performance of the contract. The contractor and contractor personnel and their successors are prohibited forever from using this information for their personal or business gain, personally or for another, directly or indirectly, without prior written approval of the Agency. This provision, or a provision with an identical effect, shall be placed in any subcontracts.

H.6. DISPUTES (JULY 2002)

(a) Reserved.

(b) Except as provided in the Act, all disputes arising under or relating to this contract shall be resolved under this clause.

(c) "Claim," as used in this clause, means a written demand or written assertion by one of the contracting parties seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of contract terms, or other relief arising under or relating to this contract. However, a written demand or written assertion by the Contractor seeking the payment of money exceeding $100,000 is not a claim under the Act until certified. A voucher, invoice, or other routine request for payment that is not in dispute when submitted is not a claim under the Act. The submission may be converted to a claim under the Act, by complying with the submission and certification requirements of this clause, if it is disputed either as to liability or amount or is not acted upon in a reasonable time.

(d)(1) A claim by the Contractor shall be made in writing and, unless otherwise stated in this contract, submitted within 6 years after accrual of the claim to the Contracting Officer for a written decision. A claim by the Federal Retirement Thrift Investment Board (Agency) against the Contractor shall be subject to a written decision by the Contracting Officer.

(2)(i) The Contractor shall provide the certification specified in paragraph (d)(2)(iii) of this clause when submitting any claim exceeding $100,000.

(ii) The certification requirement does not apply to issues in controversy that have not been submitted as all or part of a claim.

(iii) The certification shall state as follows: "I certify that the claim is made in good faith; that the supporting data are accurate and complete to the best of my knowledge and belief; that the amount requested accurately reflects the contract adjustment for which the Contractor believes the Agency is liable; and that I am duly authorized to certify the claim on behalf of the Contractor."

(3) The certification may be executed by any person duly authorized to bind the Contractor with respect to the claim.

(e) For Contractor claims of $100,000 or less, the Contracting Officer must, if requested in writing by the Contractor, render a decision within 60 days of the request. For Contractor-certified claims over $100,000, the Contracting Officer must, within 60 days, decide the claim or notify the Contractor of the date by which the decision will be made.

(f) The Contracting Officer's decision shall be final unless the Contractor requests reconsideration by the Execuitve Director (or designee), the decision on which shall be final.

(g) If the claim by the Contractor is submitted to the Contracting Officer or a claim by the Government is presented to the Contractor, the parties, by mutual consent, may agree to use alternative dispute resolution (ADR). If the Contractor refuses an offer for ADR, the Contractor shall inform the Contracting Officer, in writing, of the Contractor's specific reasons for rejecting the offer.

(h) The Agency shall pay interest on the amount found due and unpaid from (1) the date that the Contracting Officer receives the claim (certified, if required); or (2) the date that payment otherwise would be due, if that date is later, until the date of payment. With regard to claims having defective certifications, as defined in FAR 33.201, interest shall be paid from the date that the Contracting Officer initially receives the perfected claim. Simple interest on claims shall be paid at the rate, fixed by the Secretary of the Treasury as provided in the Act, which is applicable to the period during which the Contracting Officer receives the claim and then at the rate applicable for each 6-month period as fixed by the Treasury Secretary during the pendency of the claim.

(i) The Contractor shall proceed diligently with performance of this contract, pending final resolution of any request for relief, claim, appeal, or action arising under or relating to the contract, and comply with any decision of the Contracting Officer.

Section I - Contract Clauses

52-215-19 Notification of Ownership Changes. (OCT 1997)

(a) The Contractor shall make the following notifications in writing:
(1) When the Contractor becomes aware that a change in its ownership has occurred, or is certain to occur, that could result in changes in the valuation of its capitalized assets in the accounting records, the Contractor shall notify the Contracting Officer (CO) within 30 days.
(2) The Contractor shall also notify the CO within 30 days whenever changes to asset valuations or any other cost changes have occurred or are certain to occur as a result of a change in ownership.
(b) The Contractor shall–
(1) Maintain current, accurate, and complete inventory records of assets and their costs;
(2) Provide the CO or designated representative ready access to the records upon request;
(3) Ensure that all individual and grouped assets, their capitalized values, accumulated depreciation or amortization, and remaining useful lives are identified accurately before and after each of the Contractor's ownership changes; and
(4) Retain and continue to maintain depreciation and amortization schedules based on the asset records maintained before each Contractor ownership change.
(c) The Contractor shall include the substance of this clause in all subcontracts under this contract that meet the applicability requirement of FAR 15.408(k).

52.222-39 Notification of Employee Rights Concerning Payment of Union Dues or Fees. (DEC 2004)

(a) Definition. As used in this clause–
"United States" means the 50 States, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, Guam, the U.S. Virgin Islands, and Wake Island.
(b) Except as provided in paragraph (e) of this clause, during the term of this contract, the Contractor shall post a notice, in the form of a poster, informing employees of their rights concerning union membership and payment of union dues and fees, in conspicuous places in and about all its plants and offices, including all places where notices to employees are customarily posted. The notice shall include the following information (except that the information pertaining to National Labor Relations Board shall not be included in notices posted

in the plants or offices of carriers subject to the Railway Labor Act, as amended (45 U.S.C. 151-188)).

Notice to Employees

Under Federal law, employees cannot be required to join a union or maintain membership in a union in order to retain their jobs. Under certain conditions, the law permits a union and an employer to enter into a union-security agreement requiring employees to pay uniform periodic dues and initiation fees. However, employees who are not union members can object to the use of their payments for certain purposes and can only be required to pay their share of union costs relating to collective bargaining, contract administration, and grievance adjustment.

If you do not want to pay that portion of dues or fees used to support activities not related to collective bargaining, contract administration, or grievance adjustment, you are entitled to an appropriate reduction in your payment. If you believe that you have been required to pay dues or fees used in part to support activities not related to collective bargaining, contract administration, or grievance adjustment, you may be entitled to a refund and to an appropriate reduction in future payments.

For further information concerning your rights, you may wish to contact the National Labor Relations Board (NLRB) either at one of its Regional offices or at the following address or toll free number:

National Labor Relations Board
Division of Information
1099 14th Street, N.W.
Washington, DC 20570
1-866-667-6572
1-866-316-6572 (TTY)

To locate the nearest NLRB office, see NLRB's website at http://www.nlrb.gov.

(c) The Contractor shall comply with all provisions of Executive Order 13201 of February 17, 2001, and related implementing regulations at 29 CFR Part 470, and orders of the Secretary of Labor.
(d) In the event that the Contractor does not comply with any of the requirements set forth in paragraphs (b), (c), or (g), the Secretary may direct that this contract be cancelled, terminated, or suspended in whole or in part, and declare the Contractor ineligible for further Government contracts in accordance with procedures at 29 CFR Part 470, Subpart B—Compliance Evaluations, Complaint Investigations and

Enforcement Procedures. Such other sanctions or remedies may be imposed as are provided by 29 CFR Part 470, which implements Executive Order 13201, or as are otherwise provided by law.

(e) The requirement to post the employee notice in paragraph (b) does not apply to—

(1) Contractors and subcontractors that employ fewer than 15 persons;

(2) Contractor establishments or construction work sites where no union has been formally recognized by the Contractor or certified as the exclusive bargaining representative of the Contractor's employees;

(3) Contractor establishments or construction work sites located in a jurisdiction named in the definition of the United States in which the law of that jurisdiction forbids enforcement of union-security agreements;

(4) Contractor facilities where upon the written request of the Contractor, the Department of Labor Deputy Assistant Secretary for Labor-Management Programs has waived the posting requirements with respect to any of the Contractor's facilities if the Deputy Assistant Secretary finds that the Contractor has demonstrated that—

(i) The facility is in all respects separate and distinct from activities of the Contractor related to the performance of a contract; and

(ii) Such a waiver will not interfere with or impede the effectuation of the Executive order; or

(5) Work outside the United States that does not involve the recruitment or employment of workers within the United States.

(f) The Department of Labor publishes the official employee notice in two variations; one for contractors covered by the Railway Labor Act and a second for all other contractors. The Contractor shall—

(1) Obtain the required employee notice poster from the Division of Interpretations and Standards, Office of Labor-Management Standards, U.S. Department of Labor, 200 Constitution Avenue, NW, Room N-5605, Washington, DC 20210, or from any field office of the Department's Office of Labor-Management Standards or Office of Federal Contract Compliance Programs;

(2) Download a copy of the poster from the Office of Labor-Management Standards website at http://www.olms.dol.gov; or

(3) Reproduce and use exact duplicate copies of the Department of Labor's official poster.

(g) The Contractor shall include the substance of this clause in every subcontract or purchase order that exceeds the simplified acquisition threshold, entered into in connection with this contract, unless exempted by the Department of Labor Deputy Assistant Secretary for Labor-Management Programs on account of special circumstances in the national interest under authority of 29 CFR 470.3(c). For indefinite quantity subcontracts, the Contractor shall include the substance of this clause if the value of orders in any calendar year of the subcontract is expected to exceed the simplified acquisition threshold. Pursuant to 29 CFR Part 470, Subpart B—Compliance Evaluations, Complaint Investigations and Enforcement Procedures, the Secretary of

Labor may direct the Contractor to take such action in the enforcement of these regulations, including the imposition of sanctions for noncompliance with respect to any such subcontract or purchase order. If the Contractor becomes involved in litigation with a subcontractor or vendor, or is threatened with such involvement, as a result of such direction, the Contractor may request the United States, through the Secretary of Labor, to enter into such litigation to protect the interests of the United States.

52.252-2 Clauses Incorporated By Reference (Feb 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.202-1	Definitions. (Jul 2004)
52.203-3	Gratuities. (Apr 1984)
52.203-5	Covenant Against Contingent Fees. (Apr 1984)
52.203-6	Restrictions on Subcontractor Sales to the Government. (Jul 1995)
52.203-7	Anti-Kickback Procedures. (Jul 1995)
52.203-8	Cancellation, Rescission, and Recovery of Funds for Illegal or Improper Activity. (Jan 1997)
52.203-10	Price or Fee Adjustment for Illegal or Improper Activity. (Jan 1997)
52.203-12	Limitation on Payments to Influence Certain Federal Transactions. (Jun 2003)
52.204-4	Printed or Copied Double-Sided on Recycled Paper.(Aug 2000)
52.204-7	Central Contractor Registration. (Oct 2003)
52.209-6	Protecting the Government's Interest When Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment. (Jan 2005)
52.215-2	Audit and Records- Negotiation. (Jun 1999)
52.215-8	Order of Precedence- Uniform Contract Format. (Oct 1997)
52-215-18	Reversion or Adjustment of Plans for Postretirement Benefits (PRB) Other Than Pensions. (Oct 1997)
52.216-7	Allowable Cost and Payment. (Dec 2002)
52.216-8	Fixed Fee. (Mar 1997)
52.217-8	Option to Extend Services. (Nov 1999)
52.217-9	Option to Extend the Term of the Contract. (Mar 2000)
52.219-8	Utilization of Small Business Concerns. (Jan 2002)
52.222-1	Notice of the Government of Labor Disputes. (Feb 1997)
52.222-2	Payment for Overtime Premiums. (July 1990)
52.222-3	Convict Labor. (Jun 2003)
52.222-21	Prohibition of Segregated Facilities. (Feb 1999)
52.222-26	Equal Opportunity. (Apr 2002)
52.222-35	Equal Opportunity for Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans. (Dec 2001)
52.222-36	Affirmative Action for Workers with Disabilities. (Jun 1998)

52.222-37	Employment Reports on Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans. (Dec 2001)
52.223-6	Drug-Free Workplace. (May 2001)
52.224-1	Privacy Act Notification. (Apr 1984)
52.224-2	Privacy Act. (Apr 1984)
52.225-13	Restrictions on Certain Foreign Purchases.(Dec 2003)
52.225-16	Sanctioned European Union Country Services. (Feb 2000)
52.227-3	Patent Indemnity. (Apr 1984)
52.227-14	Rights in Data-General. (Jun 1987)
52.227-17	Rights in Data-Special Works. (Jun 1987)
52.227-23	Rights to Proposal Data (Technical) (Jun 1987)
52.228-7	Insurance-Liability to Third Persons. (Mar 1996)
52.232-17	Interest. (Jun 1996)
52.232-20	Limitation of Cost. (Apr 1984)
52.232-22	Limitation of Funds. (Apr 1984)
52.232-23	Assignment of Claims. (Jan 1986)
52.232-25	Prompt Payment. (Oct 2003) *Alternate I. (Feb 2002)*
52.232-34	Payment by Electronic Funds Transfer-Other than Central Contractor Registration. (May 1999)
52.233-4	Applicable Law for Breach of Contract Claim. (Oct 2004)
52.242-1	Notice of Intent to Disallow Costs. (Apr 1984)
52.242-4	Certification of Final Indirect Costs. (Jan 1997)
52.242-13	Bankruptcy. (Jul 1995) *Alternate I. (Apr 1984)*
52.244-2	Subcontracts. (Aug 1998) *Alternate II (Aug 1998)*
52.244-5	Competition in Subcontracting. (Dec 1996)
52.244-6	Subcontracts for Commercial Items. (Dec 2004)
52.245-5	Government Property (Cost-Reimbursement, Time-and-Material or Labor-Hour Contracts). (May 2004)
52.246-25	Limitation of Liability Services. (Feb 1997)
52.249-6	Termination (Cost-Reimbursement). (May 2004)
52.249-14	Excusable Delays. (Apr 1984)
52.252-1	Computer Generated Forms. (Jan 1991)

Section J - List of Attachments

Attachment A - Questionnaire For Consulting Services
Attachment B - TSP Fund Information Package
Attachment C - 2004 Investment Funds Cash Flow Table
Attachment D - 2004 TSP Audited Financial Statements
Attachment E - F, C, S, and I Funds Procurement Selection Criteria

SOLICITATION, OFFER AND AWARD

1. THIS CONTRACT IS A RATED ORDER UNDER DPAS (15 CFR 700) — RATING — PAGE 1 OF 26 PAGES

2. CONTRACT NUMBER	3. SOLICITATION NUMBER	4. TYPE OF SOLICITATION	5. DATE ISSUED	6. REQUISITION/PURCHASE NUMBER
	TIB-2005-R-003	☐ SEALED BID (IFB) ☐ NEGOTIATED (RFP)	04/29/2005	

7. ISSUED BY — CODE

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H STREET N.W., SUITE 200
WASHINGTON, DC 20005

8. ADDRESS OFFER TO *(If other than Item 7)*

SAME AS BLOCK 7

NOTE: In sealed bid solicitations "offer" and "offeror" mean "bid" and "bidder".

SOLICITATION

9. Sealed offers in original and 5 copies for furnishing the supplies or services in the Schedule will be received at the place specified in Item 8, or if handcarried, in the depository located in BLOCK 7 until 04:00 *(Hour)* local time 06/01/2005 *(Date)*

CAUTION - LATE Submissions, Modifications, and Withdrawals: See Section L, Provision No. 52.214-7 or 52.215-1. All offers are subject to all terms and conditions contained in this solicitation.

10. FOR INFORMATION CALL:	A. NAME	B. TELEPHONE *(NO COLLECT CALLS)* AREA CODE	NUMBER	EXT.	C. E-MAIL ADDRESS
	Robert Battersby	202	942-1693		RBATTER@tsp.gov

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OFFER *(Must be fully completed by offeror)*

NOTE: Item 12 does not apply if the solicitation includes the provisions at 52.214-16, Minimum Bid Acceptance Period.

12. In compliance with the above, the undersigned agrees, if this offer is accepted within 120 calendar days *(60 calendar days unless a different period is inserted by the offeror)* from the date for receipt of offers specified above, to furnish any or all items upon which prices are offered at the price set opposite each item, delivered at the designated point(s), within the time specified in the schedule.

13. DISCOUNT FOR PROMPT PAYMENT *(See Section I, Clause No. 52.232-8)*	10 CALENDAR DAYS (%)	20 CALENDAR DAYS (%)	30 CALENDAR DAYS (%)	CALENDAR DAYS (%)

14. ACKNOWLEDGMENT OF AMENDMENTS *(The offeror acknowledges receipt of amendments to the SOLICITATION for offerors and related documents numbered and dated):*	AMENDMENT NO.	DATE	AMENDMENT NO.	DATE

15A. NAME AND ADDRESS OF OFFEROR — CODE — FACILITY

16. NAME AND TITLE OF PERSON AUTHORIZED TO SIGN OFFER *(Type or print)*

15B. TELEPHONE NUMBER — AREA CODE — NUMBER — EXT.

☐ 15C. CHECK IF REMITTANCE ADDRESS IS DIFFERENT FROM ABOVE - ENTER SUCH ADDRESS IN SCHEDULE.

17. SIGNATURE — 18. OFFER DATE

AWARD *(To be completed by Government)*

19. ACCEPTED AS TO ITEMS NUMBERED — 20. AMOUNT — 21. ACCOUNTING AND APPROPRIATION

22. AUTHORITY FOR USING OTHER THAN FULL AND OPEN COMPETITION:
☐ 10 U.S.C. 2304(c) ( ) ☐ 41 U.S.C. 253(c) ( )

23. SUBMIT INVOICES TO ADDRESS SHOWN IN *(4 copies unless otherwise specified)* — ITEM

24. ADMINISTERED BY *(If other than Item 7)* — CODE

25. PAYMENT WILL BE MADE BY — CODE

26. NAME OF CONTRACTING OFFICER *(Type or print)*

27. UNITED STATES OF AMERICA *(Signature of Contracting Officer)* — 28. AWARD DATE

IMPORTANT - Award will be made on this Form, or on Standard Form 26, or by other authorized official written notice.

AUTHORIZED FOR LOCAL REPRODUCTION
Previous edition is unusable

STANDARD FORM 33 (REV. 9-97)
Prescribed by GSA - FAR (48 CFR) 53.214(c)

Section B - Supplies or Services and Prices/Costs

B.1. The Agency is seeking a contractor to provide ongoing expert consulting advice concerning certain aspects of its investment program and the procurement of investment services on a task order basis. **(NOTE: SUCCESSFUL OFFERORS UNDER THIS CONTRACT WOULD BE PROHIBITED FROM BIDDING FOR THE INVESTMENT MANAGEMENT OF ANY OF THE TSP INVESTMENT FUNDS.)**

B.2. Cost of Base Period and Options.

B.2.1. Because this contract may involve future tasks similar to those described in the statement of work, Offerors are asked to propose a single hourly rate for their work on any tasks that may be assigned under this contract. This single hourly rate should be based on the Offeror's best estimate of the occupational categories and skill levels to be provided. It should also be based on the Offeror's best estimate of proportionate use of these occupational categories and skill levels. The single hourly rate should include direct labor, appropriate overheads, general and administrative costs, and profit.

B.2.2. The contract will consist of a three year base period and two one year options. Rates may be proposed for each year of the base period. This allows rates to be adjusted annually on the anniversary of contract award.

Base Period	0001 Base Year 1 Hourly Rate	_____
Base Period	0002 Base Year 2 Hourly Rate	_____
Base Period	0003 Base Year 3 Hourly Rate	_____
Option Year 1	1001 Option Year 1 Hourly Rate	_____
Option Year 2	2001 Option Year 2 Hourly Rate	_____

B.3 TRAVEL. Estimated travel expenses shall be shown separately. Travel expenses for contractor personnel must have prior Agency approval and will be reimbursed in accordance with FAR 31.205-46, Travel Costs, and in accordance with the Federal Travel Regulations at 41 C.F.R. Part 301.

Section C - Description/Specifications/Work Statement

C.1. Background

C.1.1. The Thrift Savings Plan (TSP) is a daily valued, participant directed, defined contribution plan similar to private sector 401(k) plans. Civilian employees of the United States government and uniformed services members may participate. The Federal Retirement Thrift Investment Board (Agency) is an independent Federal Agency charged by statute with administering the TSP.

C.1.2. The TSP is the largest defined contribution plan in the world, with over 3.4 million participants and over $152 billion in assets as of December 31, 2004. Monthly contributions to the plan average $1.4

billion. The TSP currently has the following five investment funds, which are established by statute:

a. **The Government Securities Investment Fund (G Fund)** is invested in short-term nonmarketable U.S. Treasury securities that are specially issued to the TSP. The G Fund interest rate, set monthly, equals the average of market rates of return on U.S. Treasury marketable securities outstanding with four or more years to maturity. The G Fund balance was approximate $59 billion as of December 31, 2004.

b. **The Fixed Income Index Investment Fund (F Fund)** is invested in a portfolio of fixed income securities designed to track the Lehman Brothers U.S. Aggregate (LBA) index. The F Fund balance was approximately $10 billion as of December 31, 2004.

c. **The Common Stock Index Investment Fund (C Fund)** is invested in a portfolio of stocks designed to track the S&P 500 Index. The C Fund balance was approximately $66 billion as of December 31, 2004.

d. **The Small Capitalization Stock Index Investment Fund (S Fund)** is invested in a portfolio of stocks designed to track the Dow Jones Wilshire 4500 Completion Index. The S Fund balance was approximately $10 billion as of December 31, 2004.

e. **The International Stock Index Investment Fund (I Fund)** is invested in a portfolio of stocks designed to track Morgan Stanley's Europe, Australasia, Far East (EAFE) stock index. The I Fund balance was approximately $7 billion as of December 31, 2004.

C.1.3. Attachment B is the TSP Fund Information package, dated March 2005, which describes each of the investment funds and its performance in more detail. In mid-2005, the TSP plans to introduce five target date asset allocation funds ("lifecycle funds"). These lifecycle funds are asset allocation models composed entirely of combinations of the existing five TSP investment funds.

C.1.4. All five TSP investment funds are daily-valued with daily share prices. The G Fund is managed in-house by Agency staff. Assets of the other four investment funds are currently managed by Barclays Global Investors (BGI) and are invested in daily-valued collective investment trusts. Custodial services for BGI's collective trusts are provided by Investors Bank and Trust Company, through a subcontract with BGI. BGI operates a securities lending program, with the physical securities owned by the collective trusts. BGI shares securities lending income with the collective trusts. As a result, the investors in the trusts receive a portion of the securities lending income in the form of increases in fund share prices.

C.1.5. TSP contributions and other transactions, including interfund transfers, are processed each business day. TSP participants have a daily cutoff of 12 noon Eastern Time for making transactions to be posted at that day's closing share price. Daily trades are estimated between 12 noon and 2 pm eastern time, and the investment funds are invested on a "pre-notified" (rather than a "post-notified") basis).

There is considerable variation in the cash flows into and out of each of the investment funds on a daily basis. Attachment C is a table with information on average and maximum cash flows into and out of each of the investment funds during 2004.

C.1.6. Historically, TSP investment management expenses have been quite low. Attachment D is the TSP audited financial statements for 2004, which has a line showing the investment management expenses. Securities lending also provides substantial income to the TSP. In 2004, TSP funds received approximately $12 million in securities lending income.

C.1.7. TSP investment fund managers have always been selected through competitive procurement actions. These occurred most recently in 1999 for the S and I Funds and in 2000 for the F and C Funds. Implementation of the S and I Funds was delayed until May of 2001. The current investment management contracts are scheduled to expire as follows: C and F Funds on April 30, 2006; S and I Funds on December 31, 2006. Selection criteria for the most recent procurement actions for the F, C, S, and I Funds are attached as Attachment E.

C.2. Work To Be Performed

C.2.1. Interested Offerors must respond to all portions of the QUESTIONNAIRE FOR CONSULTING SERVICES, Attachment A, thereby providing a comprehensive description of their qualifications and experience to the Board. If an Offeror believes that its capabilities are limited to specific portions of the solicitation's requirements, the Offeror should so state; however, this will adversely affect your chances for award.

C.2.2. The Agency is seeking a contractor to provide ongoing expert consulting advice concerning certain aspects of its investment program and the procurement of investment services on a task order basis. Examples of areas where the Agency might seek advice are listed below. (Note: Successful Offerors under this contract would be prohibited from bidding for the investment management of any of the TSP investment funds.)

1. A risk assessment of the investment practices and securities lending practices of the current TSP investment management arrangement and of similar practices contemplated in the future.

2. Assistance in the selection of investment managers for the F, C, S, and I Funds, including:

   a. Appropriate indexes to follow;

   b. Appropriate minimum technical qualifications;

   c. Appropriate evaluation factors; and

   d. Evaluation of proposals.

3. A cost/benefit analysis of the use by the TSP of a separate account structure versus the use of commingled accounts for investing each of the TSP funds.

4. Whether the TSP should seek a custody relationship for one or more of the funds that is separate from the investment management function.

5. Whether the TSP should seek a contract for securities lending services for one or more of the funds that is separate from the investment management function.

C.2.3. The contractor shall accept responsibility as a fiduciary pursuant to § 8477 of Title 5 of the United States Code for its acts or omissions in connection with the advice provided to the Plan. The contrator shall comply with all fiduciary responsibilities prescribed by law.

Section D - Packaging and Marking

Not applicable.

Section E - Inspection and Acceptance

E.1. 52.252-2 Clauses Incorporated By Reference (Feb 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.246-5 Inspection of Services-Cost-Reimbursement (Apr 1984)

Section F - Deliveries or Performance

F.1. DELIVERABLES Deliverables will be specified in the individual task orders.

F.2. PERFORMANCE Period of performance. The term of this contract is three years, with two one-year renewable options.

F.3. TIME OF DELIVERY. Time of delivery for any deliverables will be specified in the individual task orders.

F.4. 52.252-2 Clauses Incorporated By Reference (Feb 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.242-15 Stop-Work Order (Aug 1989) *Alternate I (Apr 1984)*

Section G- Contract Administration Data

G.1. CONTRACTUAL INFORMATION

Contractual interpretation and assistance may be obtained by contacting:

Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, DC 20005-3952

Attn: Robert Battersby
Phone: (202) 942-1693
E-Mail: RBATTER@tsp.gov

G.2. CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE

a. The Contracting Officer hereby designates the below named individual as the Contracting Officer's Technical Representative (COTR).

Name: (To be completed at time of award)
Address: Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, DC 20005-3952
Phone: (To be completed at time of award)

b. The COTR is responsible for administering the performance of work under this contract. In no event, however, will any understanding, agreement, modification, change order, or other matter deviating from the terms of this contract be effective or binding upon the Agency unless formalized by proper contractual documents executed by the Contracting Officer. The COTR is responsible for:

1. Monitoring the Contractor's progress, including the surveillance and assessment of performance, and recommending to the Contracting Officer changes in requirements;

2. Interpreting the scope of work;

3. Performing inspections and acceptances required by this contract; and,

4. Assisting the Contractor in the resolution of technical problems encountered during the performance of the contract.

c. The Contracting Officer is responsible for directing any changes in the terms, conditions, or amounts cited in the contract.

d. In order for the Contractor to rely upon guidance from the COTR, the guidance must:

1. Be consistent with the description of work set forth in the contract;

2. Not constitute new assignments of work or a change to the expressed terms, conditions, or specifications incorporated into the contract;

3. Not constitute a basis for an extension to the period of performance or contract delivery schedule; and,

4. Not constitute a basis for any increase in the contract cost.

e. The COTR may be changed by the Agency at any time without prior notice to the Contractor. Written notice to the Contractor will be given by the Contracting Officer to effect any change in COTR.

f. If in the opinion of the Contractor, any instruction or direction issued by the COTR is not provided for in any of the provisions of the Contract, the Contractor shall not proceed but shall notify the Contracting Officer in writing within five (5) working days after the receipt of any such instruction or direction and shall request the Contracting Officer to modify the contract accordingly. Upon receiving such notification from the Contractor, the Contracting Officer shall issue an appropriate contract modification or advise the Contractor in writing that, in his/her opinion, the technical direction is within the scope of this clause and does not constitute a change under the Changes Clause of the contract. The Contractor shall thereupon proceed immediately with the direction given.

g. A failure of the parties to agree upon the nature of the instruction or direction or upon the contract action to be taken with respect thereto shall be subject to the provisions of the contract clause titled "Disputes."

G.3. SUBMISSION OF INVOICES

Invoices submitted for payment shall conform to the following requirements:

a. All invoices must contain contractor's EIN number.

b. All invoices must contain a "remit to" address.

c. Submit all invoices to:

Federal Retirement Thrift Investment Board
1250 H Street, N.W., Suite 200
Washington, DC 20005-3952
Attn: Office of Accounting

G.4. INCORPORATION OF CONTRACTOR'S PROPOSAL

It is understood and agreed that the Contractor shall, in meeting the requirements of this contract, perform the work in accordance with its proposal to the Board provided however, that to the extent that any provisions of the Clauses set forth herein are in conflict or inconsistent with any provisions of said proposal, the provisions of this con-

tract shall be controlling and shall supersede the provisions of said proposal.

G.5. ORDER OF PRECEDENCE

The order of precedence for interpretation of the terms, conditions and requirements of this contract shall be as follows:

a. Section A of the contract;
b. Sections B, C, E, F, G, and H of the contract;
c. Section I of the contract; and,
d. Contractor's proposal, as clarified and amended.

Section H - Special Contract Requirements

H.1. BUSINESS PRACTICES AND CONTRACT REQUIREMENTS

It is expected that the practices described by the Contractor in its response to the Request for Proposals shall be employed in its performance of the requirements of Section C of the contract. Written notice must be received in advance by the Contracting Officer for approval of any changes to these practices.

H.2. ADVERTISING AND RELEASING OF INFORMATION

The contractor must not publicize, advertise, or otherwise announce its selection by the Agency without the prior written approval of the Agency. Also, the Contractor may not release information or report on its performance under the contract without the prior written approval of the Agency.

H.3. KEY PERSONNEL

a. The Contractor must include in its proposal, by name and capacity, the key personnel to be assigned to perform and carry out all phases of work under this contract. The Contractor's key personnel include the following:

Name	Capacity

b. The individuals named above are considered key personnel and are essential for the successful completion of all work assigned under this contract. In the event any individual on the list of key personnel is to be removed or diverted from this contract, the Contractor must (1) notify the Contracting Officer; (2) supply written justification as to why the individual(s) is being removed or diverted; and, (3) provide resume of the proposed substitute or replacement including the education, work experience, etc., of each new person for Agency approval. All notifications

and other information must be submitted to the Contracting Officer at least 14 calendar days in advance of the action.

c. The Contractor must not, under any circumstances, remove or divert key personnel unless prior written authorization has been granted by the Contracting Officer. The person replacing the key person must have the same or higher qualifications and experience as the person replaced.

H.4. REIMBURSEMENT OF TRAVEL EXPENSES

Travel expenses incurred under this contract and invoiced may not exceed the applicable Federal Travel Regulations.

H.5. CONFIDENTIAL INFORMATION

All information from data files on participant accounts provided to the contractor is confidential and is subject to the Privacy Act. The Contractor and contractor personnel shall maintain this information in strict confidence and shall not disclose this information, or any information obtained as the result of its performance of this contract, to any person or entity, other than employees or bonafide contractors of the Federal Retirement Thrift Investment Board, without the prior written approval of the Agency.

The contractor and contractor personnel shall not disclose this information to any person or entity or otherwise make any improper use of this information during or after the performance period of this contract. The contractor and contractor personnel shall maintain this information in strict confidence and shall make no entry into data files, except as necessary in the performance of the contract. The contractor and contractor personnel and their successors are prohibited forever from using this information for their personal or business gain, personally or for another, directly or indirectly, without prior written approval of the Agency. This provision, or a provision with an identical effect, shall be placed in any subcontracts.

H.6. DISPUTES (JULY 2002)

(a) Reserved.

(b) Except as provided in the Act, all disputes arising under or relating to this contract shall be resolved under this clause.

(c) "Claim," as used in this clause, means a written demand or written assertion by one of the contracting parties seeking, as a matter of right, the payment of money in a sum certain, the adjustment or interpretation of contract terms, or other relief arising under or relating to this contract. However, a written demand or written assertion by the Contractor seeking the payment of money exceeding $100,000 is not a claim under the Act until certified. A voucher, invoice, or other routine request for payment that is not in dispute when submitted is not a claim under the Act. The submission may be converted to a claim under the Act, by complying with the submission and certification requirements of this clause, if it is disputed either as to liability or amount or is not acted upon in a reasonable time.

(d)(1) A claim by the Contractor shall be made in writing and, unless otherwise stated in this contract, submitted within 6 years after accrual of the claim to the Contracting Officer for a written decision. A claim by the Federal Retirement Thrift Investment Board (Agency) against the Contractor shall be subject to a written decision by the Contracting Officer.

(2)(i) The Contractor shall provide the certification specified in paragraph (d)(2)(iii) of this clause when submitting any claim exceeding $100,000.

(ii) The certification requirement does not apply to issues in controversy that have not been submitted as all or part of a claim.

(iii) The certification shall state as follows: "I certify that the claim is made in good faith; that the supporting data are accurate and complete to the best of my knowledge and belief; that the amount requested accurately reflects the contract adjustment for which the Contractor believes the Agency is liable; and that I am duly authorized to certify the claim on behalf of the Contractor."

(3) The certification may be executed by any person duly authorized to bind the Contractor with respect to the claim.

(e) For Contractor claims of $100,000 or less, the Contracting Officer must, if requested in writing by the Contractor, render a decision within 60 days of the request. For Contractor-certified claims over $100,000, the Contracting Officer must, within 60 days, decide the claim or notify the Contractor of the date by which the decision will be made.

(f) The Contracting Officer's decision shall be final unless the Contractor requests reconsideration by the Execuitve Director (or designee), the decision on which shall be final.

(g) If the claim by the Contractor is submitted to the Contracting Officer or a claim by the Government is presented to the Contractor, the parties, by mutual consent, may agree to use alternative dispute resolution (ADR). If the Contractor refuses an offer for ADR, the Contractor shall inform the Contracting Officer, in writing, of the Contractor's specific reasons for rejecting the offer.

(h) The Agency shall pay interest on the amount found due and unpaid from (1) the date that the Contracting Officer receives the claim (certified, if required); or (2) the date that payment otherwise would be due, if that date is later, until the date of payment. With regard to claims having defective certifications, as defined in FAR 33.201, interest shall be paid from the date that the Contracting Officer initially receives the perfected claim. Simple interest on claims shall be paid at the rate, fixed by the Secretary of the Treasury as provided in the Act, which is applicable to the period during which the Contracting Officer receives the claim and then at the rate applicable for each 6-month period as fixed by the Treasury Secretary during the pendency of the claim.

(i) The Contractor shall proceed diligently with performance of this contract, pending final resolution of any request for relief, claim, appeal, or action arising under or relating to the contract, and comply with any decision of the Contracting Officer.

Section I - Contract Clauses

52-215-19 Notification of Ownership Changes. (OCT 1997)

(a) The Contractor shall make the following notifications in writing:
(1) When the Contractor becomes aware that a change in its ownership has occurred, or is certain to occur, that could result in changes in the valuation of its capitalized assets in the accounting records, the Contractor shall notify the Contracting Officer (CO) within 30 days.
(2) The Contractor shall also notify the CO within 30 days whenever changes to asset valuations or any other cost changes have occurred or are certain to occur as a result of a change in ownership.
(b) The Contractor shall-
(1) Maintain current, accurate, and complete inventory records of assets and their costs;
(2) Provide the CO or designated representative ready access to the records upon request;
(3) Ensure that all individual and grouped assets, their capitalized values, accumulated depreciation or amortization, and remaining useful lives are identified accurately before and after each of the Contractor's ownership changes; and
(4) Retain and continue to maintain depreciation and amortization schedules based on the asset records maintained before each Contractor ownership change.
(c) The Contractor shall include the substance of this clause in all subcontracts under this contract that meet the applicability requirement of FAR 15.408(k).

52.222-39 Notification of Employee Rights Concerning Payment of Union Dues or Fees. (DEC 2004)

(a) Definition. As used in this clause-
"United States" means the 50 States, the District of Columbia, Puerto Rico, the Northern Mariana Islands, American Samoa, Guam, the U.S. Virgin Islands, and Wake Island.
(b) Except as provided in paragraph (e) of this clause, during the term of this contract, the Contractor shall post a notice, in the form of a poster, informing employees of their rights concerning union membership and payment of union dues and fees, in conspicuous places in and about all its plants and offices, including all places where notices to employees are customarily posted. The notice shall include the following information (except that the information pertaining to National Labor Relations Board shall not be included in notices posted

in the plants or offices of carriers subject to the Railway Labor Act, as amended (45 U.S.C. 151-188)).

Notice to Employees

Under Federal law, employees cannot be required to join a union or maintain membership in a union in order to retain their jobs. Under certain conditions, the law permits a union and an employer to enter into a union-security agreement requiring employees to pay uniform periodic dues and initiation fees. However, employees who are not union members can object to the use of their payments for certain purposes and can only be required to pay their share of union costs relating to collective bargaining, contract administration, and grievance adjustment.

If you do not want to pay that portion of dues or fees used to support activities not related to collective bargaining, contract administration, or grievance adjustment, you are entitled to an appropriate reduction in your payment. If you believe that you have been required to pay dues or fees used in part to support activities not related to collective bargaining, contract administration, or grievance adjustment, you may be entitled to a refund and to an appropriate reduction in future payments.

For further information concerning your rights, you may wish to contact the National Labor Relations Board (NLRB) either at one of its Regional offices or at the following address or toll free number:

National Labor Relations Board
Division of Information
1099 14th Street, N.W.
Washington, DC 20570
1-866-667-6572
1-866-316-6572 (TTY)

To locate the nearest NLRB office, see NLRB's website at http://www.nlrb.gov.

(c) The Contractor shall comply with all provisions of Executive Order 13201 of February 17, 2001, and related implementing regulations at 29 CFR Part 470, and orders of the Secretary of Labor.
(d) In the event that the Contractor does not comply with any of the requirements set forth in paragraphs (b), (c), or (g), the Secretary may direct that this contract be cancelled, terminated, or suspended in whole or in part, and declare the Contractor ineligible for further Government contracts in accordance with procedures at 29 CFR Part 470, Subpart B--Compliance Evaluations, Complaint Investigations and

Enforcement Procedures. Such other sanctions or remedies may be imposed as are provided by 29 CFR Part 470, which implements Executive Order 13201, or as are otherwise provided by law.

(e) The requirement to post the employee notice in paragraph (b) does not apply to—

(1) Contractors and subcontractors that employ fewer than 15 persons;

(2) Contractor establishments or construction work sites where no union has been formally recognized by the Contractor or certified as the exclusive bargaining representative of the Contractor's employees;

(3) Contractor establishments or construction work sites located in a jurisdiction named in the definition of the United States in which the law of that jurisdiction forbids enforcement of union-security agreements;

(4) Contractor facilities where upon the written request of the Contractor, the Department of Labor Deputy Assistant Secretary for Labor-Management Programs has waived the posting requirements with respect to any of the Contractor's facilities if the Deputy Assistant Secretary finds that the Contractor has demonstrated that—

(i) The facility is in all respects separate and distinct from activities of the Contractor related to the performance of a contract; and

(ii) Such a waiver will not interfere with or impede the effectuation of the Executive order; or

(5) Work outside the United States that does not involve the recruitment or employment of workers within the United States.

(f) The Department of Labor publishes the official employee notice in two variations; one for contractors covered by the Railway Labor Act and a second for all other contractors. The Contractor shall—

(1) Obtain the required employee notice poster from the Division of Interpretations and Standards, Office of Labor-Management Standards, U.S. Department of Labor, 200 Constitution Avenue, NW, Room N-5605, Washington, DC 20210, or from any field office of the Department's Office of Labor-Management Standards or Office of Federal Contract Compliance Programs;

(2) Download a copy of the poster from the Office of Labor-Management Standards website at http://www.olms.dol.gov; or

(3) Reproduce and use exact duplicate copies of the Department of Labor's official poster.

(g) The Contractor shall include the substance of this clause in every subcontract or purchase order that exceeds the simplified acquisition threshold, entered into in connection with this contract, unless exempted by the Department of Labor Deputy Assistant Secretary for Labor-Management Programs on account of special circumstances in the national interest under authority of 29 CFR 470.3(c). For indefinite quantity subcontracts, the Contractor shall include the substance of this clause if the value of orders in any calendar year of the subcontract is expected to exceed the simplified acquisition threshold. Pursuant to 29 CFR Part 470, Subpart B—Compliance Evaluations, Complaint Investigations and Enforcement Procedures, the Secretary of

Labor may direct the Contractor to take such action in the enforcement of these regulations, including the imposition of sanctions for noncompliance with respect to any such subcontract or purchase order. If the Contractor becomes involved in litigation with a subcontractor or vendor, or is threatened with such involvement, as a result of such direction, the Contractor may request the United States, through the Secretary of Labor, to enter into such litigation to protect the interests of the United States.

52.252-2 Clauses Incorporated By Reference (Feb 1998)

This contract incorporates one or more clauses by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. Also, the full text of a clause may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.202-1	Definitions. (Jul 2004)
52.203-3	Gratuities. (Apr 1984)
52.203-5	Covenant Against Contingent Fees. (Apr 1984)
52.203-6	Restrictions on Subcontractor Sales to the Government. (Jul 1995)
52.203-7	Anti-Kickback Procedures. (Jul 1995)
52.203-8	Cancellation, Rescission, and Recovery of Funds for Illegal or Improper Activity. (Jan 1997)
52.203-10	Price or Fee Adjustment for Illegal or Improper Activity. (Jan 1997)
52.203-12	Limitation on Payments to Influence Certain Federal Transactions. (Jun 2003)
52.204-4	Printed or Copied Double-Sided on Recycled Paper.(Aug 2000)
52.204-7	Central Contractor Registration. (Oct 2003)
52.209-6	Protecting the Government's Interest When Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment. (Jan 2005)
52.215-2	Audit and Records- Negotiation. (Jun 1999)
52.215-8	Order of Precedence- Uniform Contract Format. (Oct 1997)
52-215-18	Reversion or Adjustment of Plans for Postretirement Benefits (PRB) Other Than Pensions. (Oct 1997)
52.216-7	Allowable Cost and Payment. (Dec 2002)
52.216-8	Fixed Fee. (Mar 1997)
52.217-8	Option to Extend Services. (Nov 1999)
52.217-9	Option to Extend the Term of the Contract. (Mar 2000)
52.219-8	Utilization of Small Business Concerns. (Jan 2002)
52.222-1	Notice of the Government of Labor Disputes. (Feb 1997)
52.222-2	Payment for Overtime Premiums. (July 1990)
52.222-3	Convict Labor. (Jun 2003)
52.222-21	Prohibition of Segregated Facilities. (Feb 1999)
52.222-26	Equal Opportunity. (Apr 2002)
52.222-35	Equal Opportunity for Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans. (Dec 2001)
52.222-36	Affirmative Action for Workers with Disabilities. (Jun 1998)

52.222-37	Employment Reports on Special Disabled Veterans, Veterans of the Vietnam Era, and Other Eligible Veterans. (Dec 2001)
52.223-6	Drug-Free Workplace. (May 2001)
52.224-1	Privacy Act Notification. (Apr 1984)
52.224-2	Privacy Act. (Apr 1984)
52.225-13	Restrictions on Certain Foreign Purchases.(Dec 2003)
52.225-16	Sanctioned European Union Country Services. (Feb 2000)
52.227-3	Patent Indemnity. (Apr 1984)
52.227-14	Rights in Data-General. (Jun 1987)
52.227-17	Rights in Data-Special Works. (Jun 1987)
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52.228-7	Insurance-Liability to Third Persons. (Mar 1996)
52.232-17	Interest. (Jun 1996)
52.232-20	Limitation of Cost. (Apr 1984)
52.232-22	Limitation of Funds. (Apr 1984)
52.232-23	Assignment of Claims. (Jan 1986)
52.232-25	Prompt Payment. (Oct 2003) *Alternate I. (Feb 2002)*
52.232-34	Payment by Electronic Funds Transfer-Other than Central Contractor Registration. (May 1999)
52.233-4	Applicable Law for Breach of Contract Claim. (Oct 2004)
52.242-1	Notice of Intent to Disallow Costs. (Apr 1984)
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52.244-2	Subcontracts. (Aug 1998) *Alternate II (Aug 1998)*
52.244-5	Competition in Subcontracting. (Dec 1996)
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52.245-5	Government Property (Cost-Reimbursement, Time-and-Material or Labor-Hour Contracts). (May 2004)
52.246-25	Limitation of Liability Services. (Feb 1997)
52.249-6	Termination (Cost-Reimbursement). (May 2004)
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52.252-1	Computer Generated Forms. (Jan 1991)

Section J - List of Attachments

Attachment A - Questionnaire For Consulting Services
Attachment B - TSP Fund Information Package
Attachment C - 2004 Investment Funds Cash Flow Table
Attachment D - 2004 TSP Audited Financial Statements
Attachment E - F, C, S, and I Funds Procurement Selection Criteria

Section K - Representations, Certifications, and Other Statements of Offerors

52.204-8 Annual Representations and Certifications (Jan 2005)

(a)(1) If the clause at 52.204-7, Central Contractor Registration, is included in this solicitation, paragraph (b) of this provision applies.
(2) If the clause at 52.204-7 is not included in this solicitation, and the Offeror is currently registered in CCR, and has completed the ORCA electronically, the Offeror may choose to use paragraph (b) instead of completing the corresponding individual representations and certifications in the solicitation. The Offeror shall indicate which option applies by checking one of the following boxes:

[ ] (i) Paragraph (b) applies.

[ ] (ii) Paragraph (b) does not apply and the Offeror has completed the individual representations and certifications in the solicitation.

(b) The Offeror has completed the annual representations and certifications electronically via the Online Representations and Certifications Application (ORCA) website at http://orca.bpn.gov. After reviewing the ORCA database information, the Offeror verifies by submission of the offer that the representations and certifications currently posted electronically have been entered or updated within the last 12 months, are current, accurate, complete, and applicable to this solicitation (including the business size standard applicable to the NAICS code referenced for this solicitation), as of the date of this offer and are incorporated in this offer by reference (see FAR 4.1201); except for the changes identified below [Offeror to insert changes, identifying change by clause number, title, date]. These amended representation(s) and/or certification(s) are also incorporated in this offer and are current, accurate, and complete as of the date of this offer.

FAR Clause #	Title	Date	Change
_____	_____	_____	_____

Any changes provided by the Offeror are applicable to this solicitation only, and do not result in an update to the representations and certifications posted on ORCA.

52.209-5 Certification Regarding Debarment, Suspension, Proposed Debarment, and Other Responsibility Matters. (Dec 2001)

(a)(1) The Offeror certifies, to the best of its knowledge and belief, that–

(i) The Offeror and/or any of its Principals–

(A) Are ___ are not ___ presently debarred, suspended, proposed for debarment, or declared ineligible for the award of contracts by any Federal Agency;

(B) Have ___ have not ___, within a three-year period preceding this offer, been convicted of or had a civil judgment rendered against them for: commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public (Federal, state, or local) contract or subcontract; violation of Federal or state antitrust statutes relating to the submission of offers; or commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, or receiving stolen property; and (C) Are ___ are not ___ presently indicted for, or otherwise criminally or civilly charged by a governmental entity with,

commission of any of the offenses enumerated in paragraph (a)(1)(i)(B) of this provision.
(ii) The Offeror has ___ has not ___, within a three-year period preceding this offer, had one or more contracts terminated for default by any Federal Agency.
(2) "Principals," for the purposes of this certification, means officers; directors; owners; partners; and, persons having primary management or supervisory responsibilities within a business entity (e.g., general manager; plant manager; head of a subsidiary, division, or business segment, and similar positions).

This Certification Concerns a Matter Within the Jurisdiction of an Agency of the United States and the Making of a False, Fictitious, or Fraudulent Certification May Render the Maker Subject to Prosecution Under Section 1001, Title 18, United States Code.

(b) The Offeror shall provide immediate written notice to the Contracting Officer if, at any time prior to contract award, the Offeror learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.
(c) A certification that any of the items in paragraph (a) of this provision exists will not necessarily result in withholding of an award under this solicitation. However, the certification will be considered in connection with a determination of the Offeror's responsibility. Failure of the Offeror to furnish a certification or provide such additional information as requested by the Contracting Officer may render the Offeror nonresponsible.
(d) Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render, in good faith, the certification required by paragraph (a) of this provision. The knowledge and information of an Offeror is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.
(e) The certification in paragraph (a) of this provision is a material representation of fact upon which reliance was placed when making award. If it is later determined that the Offeror knowingly rendered an erroneous certification, in addition to other remedies available to the Government, the Contracting Officer may terminate the contract resulting from this solicitation for default.

52.215-6 Place of Performance. (Oct 1997)

(a) The Offeror or respondent, in the performance of any contract resulting from this solicitation, ___ intends, ___ does not intend [check applicable block] to use one or more plants or facilities located at a different address from the address of the Offeror or respondent as indicated in this proposal or response to request for information.

(b) If the Offeror or respondent checks "intends" in paragraph (a) of this provision, it shall insert in the following spaces the required information:

PLACE OF PERFORMANCE (STREET ADDRESS, CITY, STATE, COUNTY, ZIP CODE)	NAME AND ADDRESS OF OWNER AND OPERATOR OF THE PLANT OR FACILITY IF OTHER THAN OFFEROR OR RESPONDENT
_____	_____
_____	_____

52.219-1 Small Business Program Representations. (May 2004)

(a)(1) The North American Industry Classification System (NAICS) code for this acquisition is _____ [insert NAICS code].
(2) The small business size standard is _____ [insert size standard].
(3) The small business size standard for a concern which submits an offer in its own name, other than on a construction or service contract, but which proposes to furnish a product which it did not itself manufacture, is 500 employees.
(b) Representations.
(1) The Offeror represents as part of its offer that it ___ is, ___ is not a small business concern.
(2) [Complete only if the Offeror represented itself as a small business concern in paragraph (b)(1) of this provision.] The Offeror represents, for general statistical purposes, that it ___ is, ___ is not, a small disadvantaged business concern as defined in 13 CFR 124.1002.
(3) [Complete only if the Offeror represented itself as a small business concern in paragraph (b)(1) of this provision.] The Offeror represents as part of its offer that it ___ is, ___ is not a women-owned small business concern.
(4) [Complete only if the Offeror represented itself as a small business concern in paragraph (b)(1) of this provision.] The Offeror represents as part of its offer that it ___ is, ___ is not a veteran-owned small business concern.
(5) [Complete only if the Offeror represented itself as a veteran-owned small business concern in paragraph (b)(4) of this provision.] The Offeror represents as part of its offer that it ___ is, ___ is not a service-disabled veteran-owned small business concern.
(6) [Complete only if the Offeror represented itself as a small business concern in paragraph (b)(1) of this provision.] The Offeror represents, as part of its offer, that–

(i) It ___ is, ___ is not a HUBZone small business concern listed, on the date of this representation, on the List of Qualified HUBZone Small Business Concerns maintained by the Small Business Administration, and no material change in ownership and control, principal office, or HUBZone employee percentage has occurred since it was certified by the Small Business Administration in accordance with 13 CFR Part 126; and
(ii) It ___ is, ___ is not a joint venture that complies with the requirements of 13 CFR Part 126, and the representation in paragraph (b)(6)(i) of this provision is accurate for the HUBZone small business concern or concerns that are participating in the joint venture. [The Offeror shall enter the name or names of the HUBZone small business concern or concerns that are participating in the joint venture: _____.] Each HUBZone small business concern participating in the joint venture shall submit a separate signed copy of the HUBZone representation.
(c) Definitions. As used in this provision—
"Service-disabled veteran-owned small business concern"—
(1) Means a small business concern—
(i) Not less than 51 percent of which is owned by one or more service-disabled veterans or, in the case of any publicly owned business, not less than 51 percent of the stock of which is owned by one or more service-disabled veterans; and
(ii) The management and daily business operations of which are controlled by one or more service-disabled veterans or, in the case of a service-disabled veteran with permanent and severe disability, the spouse or permanent caregiver of such veteran.
(2) "Service-disabled veteran" means a veteran, as defined in 38 U.S.C. 101(2), with a disability that is service-connected, as defined in 38 U.S.C. 101(16).
"Small business concern" means a concern, including its affiliates, that is independently owned and operated, not dominant in the field of operation in which it is bidding on Government contracts, and qualified as a small business under the criteria in 13 CFR Part 121 and the size standard in paragraph (a) of this provision.
"Veteran-owned small business concern" means a small business concern—
(1) Not less than 51 percent of which is owned by one or more veterans (as defined at 38 U.S.C. 101(2)) or, in the case of any publicly owned business, not less than 51 percent of the stock of which is owned by one or more veterans; and
(2) The management and daily business operations of which are controlled by one or more veterans.
"Women-owned small business concern" means a small business concern—
(1) That is at least 51 percent owned by one or more women; or, in the case of any publicly owned business, at least 51 percent of the stock of which is owned by one or more women; and

(2) Whose management and daily business operations are controlled by one or more women.
(d) Notice.
(1) If this solicitation is for supplies and has been set aside, in whole or in part, for small business concerns, then the clause in this solicitation providing notice of the set-aside contains restrictions on the source of the end items to be furnished.
(2) Under 15 U.S.C. 645(d), any person who misrepresents a firm's status as a small, HUBZone small, small disadvantaged, or women-owned small business concern in order to obtain a contract to be awarded under the preference programs established pursuant to section 8(a), 8(d), 9, or 15 of the Small Business Act or any other provision of Federal law that specifically references section 8(d) for a definition of program eligibility, shall—
(i) Be punished by imposition of fine, imprisonment, or both;
(ii) Be subject to administrative remedies, including suspension and debarment; and
(iii) Be ineligible for participation in programs conducted under the authority of the Act.

52.227-15 Representation of Limited Rights Data and Restricted Computer Software. (May 1999)

(a) This solicitation sets forth the work to be performed if a contract award results, and the Federal Retirement Thrift Investment Board's (Agency's) known delivery requirements for data (as defined in FAR 27.401). Any resulting contract may also provide the Agency the option to order additional data under the Additional Data Requirements clause at 52.227-16 of the FAR, if included in the contract. Any data delivered under the resulting contract will be subject to the Rights in Data—General clause at 52.227-14 that is to be included in this contract. Under the latter clause, a Contractor may withhold from delivery data that qualify as limited rights data or restricted computer software, and deliver form, fit, and function data in lieu thereof. The latter clause also may be used with its Alternates II and/or III to obtain delivery of limited rights data or restricted computer software, marked with limited rights or restricted rights notices, as appropriate. In addition, use of Alternate V with this latter clause provides the Agency the right to inspect such data at the Contractor's facility.
(b) As an aid in determining the Agency's need to include Alternate II or Alternate III in the clause at 52.227-14, Rights in Data—General, the Offeror shall complete paragraph (c) of this provision to either state that none of the data qualify as limited rights data or restricted computer software, or identify, to the extent feasible, which of the data qualifies as limited rights data or restricted computer software. Any identification of limited rights data or

restricted computer software in the Offeror's response is not determinative of the status of such data should a contract be awarded to the Offeror.

(c) The Offeror has reviewed the requirements for the delivery of data or software and states [*Offeror check appropriate block*]-

o None of the data proposed for fulfilling such requirements qualifies as limited rights data or restricted computer software.

o Data proposed for fulfilling such requirements qualify as limited rights data or restricted computer software and are identified as follows:

_____

_____

_____

NOTE: "Limited rights data" and "Restricted computer software" are defined in the contract clause entitled "Rights in Data-General."

K.1. 52.252-1 Solicitation Provisions Incorporated by Reference (Feb 1998)

This solicitation incorporates one or more solicitation provisions by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. The Offeror is cautioned that the listed provisions may include blocks that must be completed by the Offeror and submitted with its quotation or offer. In lieu of submitting the full text of those provisions, the Offeror may identify the provision by paragraph identifier and provide the appropriate information with its quotation or offer. Also, the full text of a solicitation provision may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.203-11 Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions. (Apr 1991)

52.204-5 Women Owned Business (Other Than Small Business). (May 1999)

52.222-38 Compliance with Veterans' Employment Reporting Requirements. (Dec 2001)

Section L - Instructions, Conditions, and Notices to Offerors

L.1. SUBMISSION OF PROPOSAL The Offeror must provide an original and five (5) copies of the technical proposal and an original and three (3) copies of the price proposal. Cost/price data shall not be included in the technical proposal. The price proposal must be submitted under a separate cover. This will be a best value award.

a. Technical Proposal. The technical proposal must be limited to 50 pages (text to be single spaced, no less than 10-pitch font), 8-1/2" X 11" white paper (no less than 20 lb. copy paper). Any pages beyond the 51st will not be reviewed (resumes are excluded from the page count).

Attachment A provides all the questions you are required to answer in your technical proposal. Present your comprehensive response to the questions based on information contained in the Statement of Work. All questions should be addressed completely and concisely and in the order presented in Attachment A. If an alternative method is proposed to a requirement, provide the proposed change and the rationale. Appendices should be used prudently and only when a detailed response is impractical. Ambiguous statements such as "all reasonable efforts..." will not be acceptable.

b. Cost/Price Proposal. Must be limited to 25 pages (see further specifications in paragraph a. above).

1. Identify the schedule of fees as it relates to the services to be provided. The cost structure should indicate cost of services and include a cost breakout for any optional program components available.

2. Provide all prices associated with your services. List any and all costs and provide an explanation for the basis of the cost (e.g., if the charge is "per hour", explain exactly how an hour is calculated, what is included in the charge, and where the information provided in your experience comes from.

3. Include travel and related charges that may be incurred during this project. All travel must be approved by the COTR in advance and will be reimbursed in accordance with Government travel regulations.

L.2. Due Date. The proposal packages should be received by the Agency no later than 4:00 PM Eastern Time, June 1, 2005. Address the package as follows:

Federal Retirement Thrift Investment Board
Attn: Mr. Robert Battersby
1250 H Street, NW
Washington, DC 20005-3952

To ensure the proposal packages arrives at the proper place on time and to prevent opening by unauthorized individuals, your proposal package must be identified on the wrapper as follows:

Proposal Submitted in Response to Solicitation
No. TIB-05-R-003
Package No. ____ of ____
Date: _____

L.3. Bid and Proposal Costs. The Board will not reimburse Offerors for any expenses incurred in the preparation of proposals submitted in response to this RFP.

L.4. Billing. The awardee will be permitted to submit invoices monthly for incurred costs.

L.5. RFP Questions. All inquiries pertaining to this RFP must be made in writing via e-mail or letter and must be received by 4:00 PM on May 17, 2005. No other method will be accepted. The point of contact for all RFP inquiries is Robert Battersby, 202-942-1693, fax 202-942-1674, e-mail rbatter@tsp.gov.

L.6. THE FEDERAL RETIREMENT THRIFT INVESTMENT BOARD MAY, BY WRITTEN NOTICE TO THE OFFEROR, TERMINATE THE RIGHT OF THE OFFEROR TO PROCEED UNDER ANY CONTRACT THAT ARISES AS A RESULT OF THIS SOLICITATION IF IT IS FOUND THAT GRATUITIES, IN THE FORM OF ENTERTAINMENT, GIFTS OR OTHERWISE, WERE OFFERED OR GIVEN BY THE OFFEROR, OR ANY AGENT OR REPRESENTATIVE OF THE OFFEROR, TO ANY OFFICER OR EMPLOYEE OF THE FEDERAL RETIREMENT THRIFT INVESTMENT BOARD WITH THE INTENT TO SECURE FAVORABLE TREATMENT.

52.216-1 Type of Contract. (Apr 1984)

The Government contemplates award of a cost reimbursement contract resulting from this solicitation.

L.7. 52.252-1 Solicitation Provisions Incorporated by Reference (Feb 1998)

This solicitation incorporates one or more solicitation provisions by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. The Offeror is cautioned that the listed provisions may include blocks that must be completed by the Offeror and submitted with its quotation or offer. In lieu of submitting the full text of those provisions, the Offeror may identify the provision by paragraph identifier and provide the appropriate information with its quotation or offer. Also, the full text of a solicitation provision may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.204-6 Data Universal Numbering System (DUNS) Number. (Oct 2003)

52.215-1 Instructions to Offerors-Competitive. (Jan 2004)

52.215-16 Facilities Capital Cost of Money. (Jun 2003)

52.237-10 Identification of Uncompensated Overtime. (Oct 1997)

Section M - Evaluation Factors for Award

M.1. EVALUATION OF OFFERS. This section sets forth the criteria that will be used for the evaluation of each timely offer to determine the successful Offeror. The evaluation of offers will consist of a technical and cost evaluation. Only proposals deemed to be technically acceptable will receive further consideration. The Agency is committed to providing the highest level of customer service and satisfaction.

Offerors should be aware of the fact that only the highest caliber of quality and service will be accepted.

M.2. Procedure. The Agency will select an Offeror for award in accordance with the guidance in FAR Part 15, the Agency's Directive No. 12A, and the terms of this solicitation.

M.3. Minimum Technical Requirements. The technical proposal must demonstrate compliance with the minimum technical factors listed below in order to be considered for award. Proposals which do not conform to the technical requirements of this section will be rejected by the Technical Evaluation Panel (TEP) before technical evaluation.

Through the answers provided to the questions in Attachment A, Offerors must demonstrate and certify compliance with the following minimum criteria:

1. Within the past five years, the Offeror must have provided investment consulting advice to at least two clients, each having over $5 billion in indexed investment assets.

2. Within the past five years, the Offeror has performed risk analyses of investment practices or securities lending practices for at least two clients, each having over $1 billion in investment assets.

3. Within the past five years, the Offeror must have assisted at least two clients, each having over $500 million in indexed investment assets, in establishing criteria for searching for and selecting an investment manager for those assets.

4. Within the past five years, the Offeror must have provided advice to at least one client with over $100 million in indexed investment assets concerning appropriate custody arrangements for the client's indexed investment assets.

5. Within the past five years, the Offeror must have provided advice to at least one client with over $100 million in indexed investment assets concerning whether the client should use separate or commingled accounts for its indexed investment assets.

6. Within the past five years, the Offeror must have provided advice to at least one client with over $100 million in indexed investment assets concerning whether and how the client should lend its securities.

7. The firm must have a staff member available to be assigned to the project who is a certified Financial Risk Manager.

M.4. Technical evaluation criteria - 100 points

1. Subject matter experience - 50 points.

Through evaluation of the Offeror's work product and interviews with clients of the Offeror, the Agency will evaluate client satisfaction and the Offeror's experience in providing investment

consulting advice in a variety of areas to clients investing in daily-valued index funds with daily cash flows. Higher scores will be given to those Offerors whose past performance demonstrates that they have provided advice in the areas that relate to the tasks that are described in the statement of work, that they have provided advice to multiple clients, that they have clients with large amounts of indexed assets to invest, and that their clients have daily-valued, indexed funds with large daily cash flows.

2. Demonstrated knowledge of personnel - 30 points.

The key personnel assigned to the project by the Offeror should demonstrate, through their resumes and through personal interviews with the selection panel, that they have substantial knowledge of the subject matters described in the statement of work and that they have advised clients and prepared reports upon those matters for clients with daily-valued indexed investment funds similar to those offered by the TSP.

3. Organizational strength - 20 points.

Through review of materials submitted by the Offeror and through reference interviews, Offerors will be evaluated upon the size and depth of their organization, their ability to perform their own original research, the extent to which investment consulting forms the core of their business, their procedures for avoiding conflicts of interest, and their demonstrated business integrity.

M.5. Cost/Price Evaluation.

The Agency will make an award to the responsible Offeror whose proposal conforms to the solicitation and is most advantageous to the Board, cost/price and other factors considered. Technical quality will be considered substantially more important than price. As proposals become more equal in their technical merit, cost/price will become more important. Because this contract may involve future tasks similar to those in the statement of work, we are asking Offerors to propose a single hourly rate for their work on any tasks that may be assigned under this contract, and we will evaluate cost/price for each vendor based on that rate.

M.6. Award.

a. The Agency may reject any or all offers, accept other than the lowest cost/price offer, and waive informalities and minor irregularities in offers received.

b. The Agency may award a contract on the basis of initial offers received, without discussions. Therefore, each initial offer should contain the Offeror's best terms from a cost/price and technical standpoint.

M.7. 52.252-1 Solicitation Provisions Incorporated by Reference (Feb 1998)

This solicitation incorporates one or more solicitation provisions by reference, with the same force and effect as if they were given in full text. Upon request, the Contracting Officer will make their full text available. The Offeror is cautioned that the listed provisions may include blocks that must be completed by the Offeror and submitted with its quotation or offer. In lieu of submitting the full text of those provisions, the Offeror may identify the provision by paragraph identifier and provide the appropriate information with its quotation or offer. Also, the full text of a solicitation provision may be accessed electronically at this address:

http://www.acqnet.gov/far/

52.217-5 Evaluation of Options. (July, 1990)

ATTACHMENT A

Please submit the following information:

1. List your firm's complete name, address, e-mail address, telephone and fax numbers.

2. Provide a brief history of your firm, your parent organization (if any), and any affiliated companies.

3. Describe the ownership structure of your firm, including specific details with regard to your parent and any affiliated companies.

4. Describe the lines of business of your firm, your parent organization and any affiliated companies.

5. State whether your firm, or its parent or affiliate, is a registered investment advisor with the SEC under the Investment Advisors Act of 1940.

6. Within the last five years, has your organization or an officer or principal been involved in any business litigation or other legal proceedings relating to your consulting activities? If so, provide an explanation and indicate the current status or disposition.

7. Please state any information concerning any potential conflicts of interest your firm, its parent or affiliate, or key personnel assigned to this account, might have in performing work for the Thrift Savings Plan. If any conflicts are identified, state how you would ensure that the conflicts do not affect your work on this account.

8. Provide the name and address of each client having indexed assets in the following amounts: 1) greater than $5 billion, 2) between $1 billion and $5 billion, 3) between $500 million and $1 billion, and 4) between $100 million and $500 million, for whom you have performed work in each of the following areas in the past five years:

a) Establishment of criteria for selection of investment managers for index funds;

b) Risk evaluation of investment, custody, and securities lending practices;

c) The costs and benefits of using separate accounts versus using commingled trust funds for indexed assets;

d) The most cost-effective way to structure a securities lending arrangement for large amounts of indexed assets with a minimum amount of risk; and

e) Whether a custodian separate from the investment manager should be used for indexed assets.

9. For each client listed in response to request 8, provide the estimated daily cash flows into and out of all index funds invested for that client at the time your firm performed its services.

10. Provide the following reference information for at least three clients listed in response to request 8: name, address, and telephone number of a contact person; a description of work performed for the client; and, if available, a sample of work product demonstrating your expertise.

11. Identify and provide resumes for all key personnel who would be assigned to work on this account, including a description of each person's expertise in each of the following areas:

a) Selection of investment managers for index funds, including establishment of appropriate procurement criteria;

b) Risk evaluation of investment, custody, and securities lending practices;

c) The costs and benefits of using separate accounts versus using commingled trust funds;

d) The most cost-effective way to structure a securities lending arrangement with a minimum amount of risk; and

e) Whether a custodian separate from the investment manager should be used.

12. Describe your firm's approach to investment research. Please indicate relationships with researchers/academics outside of your firm. Give examples of how your research was used for other similar clients.

13. What tools do you use to evaluate managers and the market? Did you develop these tools in-house or purchase them from vendors?

14. Describe how your firm gathers, verifies, updates, and maintains data on investment managers and investment management practices. Describe any relationships your firm, or its parent or affiliates, may have with investment management firms that could result in compensation to your firm, its parent, or its affiliates. If any such relationships exist, describe how you would avoid a conflict of interest in providing the services described in the statement of work.

15. Describe in detail your firm's ongoing investment manager due diligence process. What are some of the key issues you examine?

16. Describe how your firm measures performance reporting and evaluation for index fund providers.

Attachment B

Thrift Savings Plan

FUND INFORMATION

March 2005

We're glad you asked . . .

. . . about the TSP investment funds. You're on your way to becoming an informed investor.

When you choose among the five funds, remember that **your investment allocation is the single most important factor** in determining the growth of your TSP account. As you read the fund descriptions, think about these points:

✓ **Consider both risk and return.** The F Fund (bonds) and the C, S, and I Funds (stocks) have higher potential returns than the risk-free G Fund (Government securities). But stocks and bonds also carry the risk of investment losses. On the other hand, investing entirely in the G Fund may not give you the returns you need to meet your savings goal.

✓ **You need to be comfortable with the amount of risk you expect to take.** Your investment comfort zone should allow you to use a "buy and hold" strategy so that you are not chasing market returns during upswings, or fleeing from certain funds during downswings.

✓ **You can reduce your overall risk by diversifying your account among the different TSP funds.** The five funds offer a broad range of investment options, including government securities, bonds, and domestic and foreign stocks. Generally, it's best not to put all your eggs in one basket.

✓ **The amount of risk you can sustain depends upon your investment time horizon.** The more time you have before you need to withdraw your account, the more risk you can take on. (This is because early losses can be offset by later gains.) As your time horizon shortens, you may need to modify your investment mix.

✓ **Periodically review your investment choices** and your account balance to make sure that the funds you chose are still appropriate for your situation. If not, rebalance your account to get the allocation you want.

For more information about TSP investment options, visit the Web site, **www.tsp.gov**. You can get recent and historical rates of return, use the calculators to estimate the effect of various rates of return on your account balance, and read TSP *Highlights* articles about investing.

Remember, there is no guarantee that future rates of return will match historical rates.

G FUND

Government Securities Investment Fund

Fund Information

Net Assets
as of December 31, 2004
$58.8 billion

2004 Administrative Expense Ratio
.06% (6 basis points)
$0.60 per $1,000 account balance

Asset Manager
Federal Retirement Thrift Investment Board

Returns

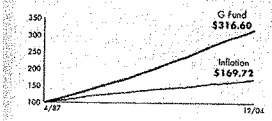
as of December 31, 2004

	G Fund[1]	G Fund-Related Securities[2]
1 Year	4.3	4.4
5 Year	5.0	5.0
10 Year	5.7	5.8
Since Inception April 1, 1987	6.7	6.8

[1]After expenses [2]Without deductions

Growth of $100

Since Inception

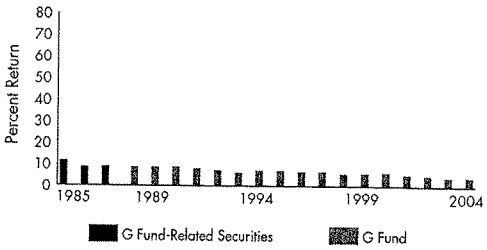


Key Features

- The G Fund offers the opportunity to earn rates of interest similar to those of long-term Government securities but without any risk of loss of principal and very little volatility of earnings.
- The objective of the G Fund is to maintain a higher return than inflation without exposing the fund to risk of default or changes in market prices.
- The G Fund is invested in short-term U.S. Treasury securities specially issued to the TSP. Payment of principal and interest is guaranteed by the U.S. Government. Thus, there is no "credit risk."
- Earnings consist entirely of interest income on the securities.
- Interest on G Fund securities has outpaced inflation and 90-day T-bills.

G Fund Returns*

1985–2004



*For periods before the inception of the G Fund, the rate shown is the statutory rate (without deduction for administrative expenses).

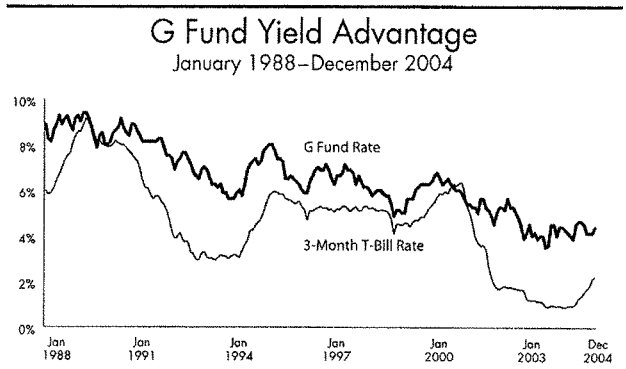
3/05

G Fund Facts

By law, the G Fund must be invested in nonmarketable U.S. Treasury securities specially issued to the TSP. The G Fund investments are kept by electronic entries which do not involve any transaction costs to the TSP. The G Fund rate is set once a month by the U.S. Treasury based on a statutorily prescribed formula (described below), and all G Fund investments earn that interest rate for the month. (The G Fund rate is also used in other Government programs, such as the Social Security and Medicare trust funds and the Civil Service Retirement and Disability Fund.)

The Board invests the G Fund exclusively in short-term securities (with maturities ranging from 1 day to 4 days over holiday weekends), but the securities earn a long-term interest rate. Because the Federal Retirement Thrift Investment Board pursues its strategy of investing the G Fund in short-term securities, the value of G Fund securities does not fluctuate; only the interest rate changes. Thus, when the monthly G Fund interest rate goes up, G Fund earnings accrue faster; when the G Fund interest rate declines, G Fund earnings accrue more slowly.

Calculation of G Fund Rate—G Fund securities earn a statutory interest rate equal to the average market yield on outstanding marketable U.S. Treasury securities with 4 or more years to maturity. The G Fund rate is calculated by the U.S. Treasury as the weighted average yield of approximately 70 U.S. Treasury securities on the last day of the previous month. The yield of each security has a weight in the G Fund rate calculation based on the market value of that security. (Market value is the outstanding dollar amount of the security measured at its current market price. The larger the dollar amount of a security outstanding, the larger its weight in the calculation.) The Treasury securities used in the G Fund rate calculation have a weighted average maturity of approximately 12 years.



The annualized G Fund interest rate averaged 1.9 percentage points (187 basis points) more than 3-month T-bill rates since January 1988.

The G Fund Yield Advantage—The G Fund rate calculation described above, along with the Board's policy of investing exclusively in short-term maturities, results in a long-term rate being earned on short-term securities. Because long-term interest rates are generally higher than short-term rates, G Fund securities usually earn a higher rate of return than do short-term marketable Treasury securities. In the chart above, the G Fund rate is compared with the rate of return on 3-month marketable Treasury securities (T-bills). From January 1988 through December 2004, the G Fund rate was, on average, 1.9 percentage points higher per year than the 3-month T-bill rate.

Thrift Savings Plan

F FUND

Fixed Income Index Investment Fund

Fund Information

Net Assets
as of December 31, 2004
$10.1 billion

2004 Administrative Expense Ratio
.05% (5 basis points)
$0.50 per $1,000 account balance

Number of Securities
3889

Average Duration
4.3 years

Average Coupon Rate
5.25%

Benchmark Index
Lehman Brothers U.S. Aggregate bond index
www.lehman.com

Asset Manager
Barclays Global Investors

Returns

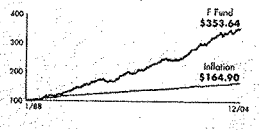
as of December 31, 2004

	F Fund[1]	LBA Index[2]
1 Year	4.3	4.3
5 Year	7.7	7.7
10 Year	7.7	7.7
Since Inception Jan. 29, 1988	7.7	8.1

[1]After expenses [2]Without deductions

Growth of $100

Since Inception

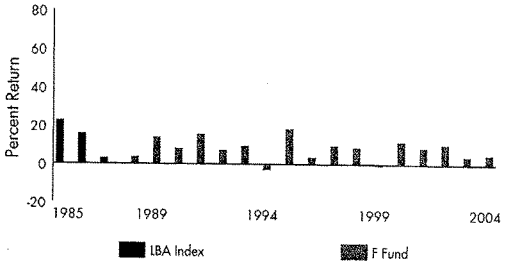


Key Features

- The F Fund offers the opportunity to earn rates of return that exceed those of money market funds over the long term (particularly during periods of declining interest rates), with relatively low risk.
- The objective of the F Fund is to match the performance of the Lehman Brothers U.S. Aggregate (LBA) index, a broad index representing the U.S. bond market.
- The risk of nonpayment of interest or principal (credit risk) is relatively low because the fund includes only investment-grade securities and is broadly diversified. However, the F Fund has market risk (the risk that the value of the underlying securities will decline) and prepayment risk (the risk that the security will be repaid before it matures).
- Earnings consist of interest income on the securities and gains (or losses) in the value of securities resulting from changing market interest rates.

F Fund Returns*

1985–2004



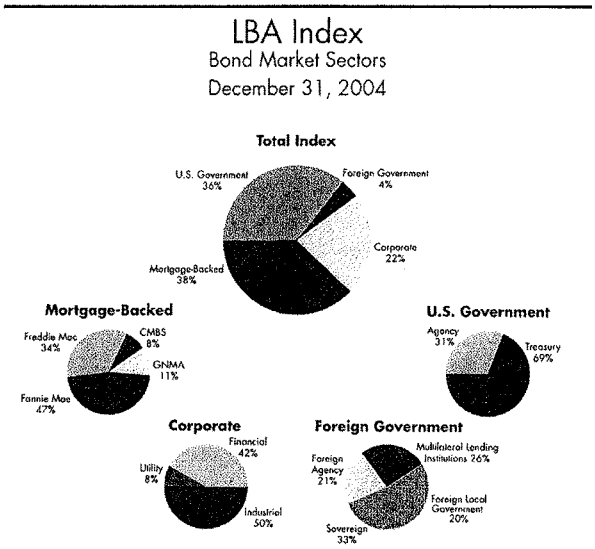
*For periods before the inception of the F Fund, the rate shown is the return of the LBA index (without deduction for management fees, trading costs, and administrative expenses).

3/05

F Fund Facts

By law, the F Fund must be invested in fixed-income securities. The Federal Retirement Thrift Investment Board has chosen to invest the F Fund in an index fund that tracks the Lehman Brothers U.S. Aggregate (LBA) index, a broadly diversified index of the U.S. bond market.

The **LBA index** consists of high quality fixed-income securities with maturities of more than one year. The index represents the U.S. Government, mortgage-backed securities, corporate, and foreign government sectors of the U.S. bond market. On December 31, 2004, the LBA index included 5,836 notes and bonds. The average LBA index coupon rate was 5.24%, which means that, on an annual basis, interest income equalled approximately 5.24% of the face value of the securities in the LBA index. The average duration of the LBA index was 4.3 years, which means that a 1% increase (decrease) in interest rates could be expected to result in a 4.3% decrease (increase) in the price of the security. New issues are added continuously to the LBA index, and older issues drop out as they reach maturity.



Barclays U.S. Debt Index Fund—The F Fund is invested in the Barclays U.S. Debt Index Fund. Because the LBA index contains such a large number of securities, it is not feasible for the Barclays U.S. Debt Index Fund to invest in each security in the index. Instead, Barclays selects a representative sample of the various types of mortgage-backed, U.S. Government, corporate, and foreign government securities included in the overall index. Within each sector, Barclays selects securities that, as a whole, are designed to match important index characteristics such as duration, yield, and credit rating. The performance of the U.S. Debt Index Fund is evaluated on the basis of how closely its returns match those of the LBA index.

The F Fund invests in the Barclays U.S. Debt Index Fund by purchasing shares of the Barclays U.S. Debt Index Fund "E," which in turn holds shares of the Barclays U.S. Debt Index Master Fund. As of December 31, 2004, F Fund holdings constituted $9.7 billion of the U.S. Debt Index Master Fund, which itself held $26.3 billion in securities.

Thrift Savings Plan

C FUND

Common Stock Index Investment Fund

Fund Information

Net Assets
as of December 31, 2004
$65.7 billion

2004 Administrative Expense Ratio
.06% (6 basis points)
$0.60 per $1,000 account balance

Benchmark Index
Standard & Poor's 500 stock index
www.standardandpoors.com

Asset Manager
Barclays Global Investors

Returns

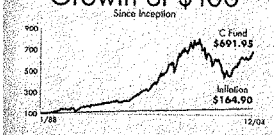
as of December 31, 2004

	C Fund[1]	S&P 500 Index[2]
1 Year	10.8	10.9
5 Year	−2.3	−2.3
10 Year	12.0	12.1
Since Inception Jan 29, 1988	12.1	12.4

[1]After expenses [2]Without deductions

Growth of $100

Since Inception

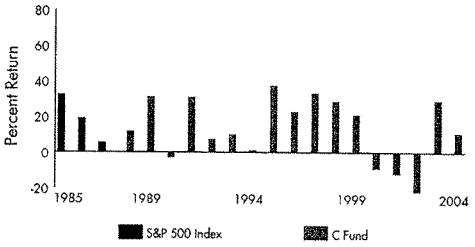


Key Features

- The C Fund offers the opportunity to earn a potentially high investment return over the long term from a broadly diversified portfolio of stocks of large and medium-size U.S. companies.
- The objective of the C Fund is to match the performance of the S&P 500 index, a broad market index made up of stocks of 500 large to medium-size U.S. companies.
- There is a risk of loss if the S&P 500 index declines in response to changes in overall economic conditions (market risk).
- Earnings consist of gains and losses in the prices of stocks, and dividend income.

C Fund Returns*

1985–2004



* For periods before the inception of the C Fund, the rate shown is the return of the S&P 500 index (without deduction for management fees, trading costs, or administrative expenses).

S&P 500 Top Ten

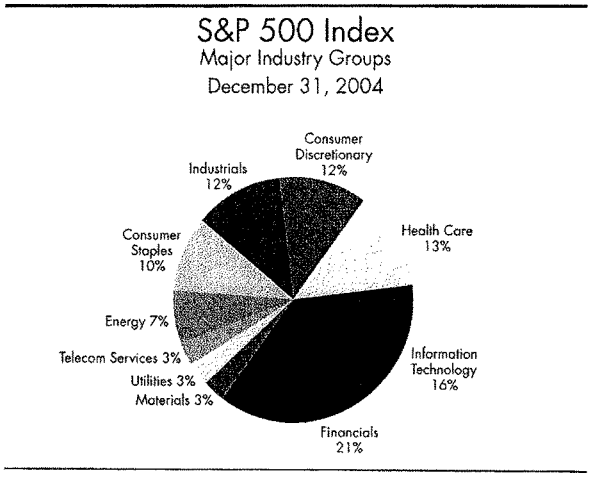
Company	Percent of Index
General Electric	3.42
Exxon Mobil Corporation	2.93
Microsoft Corporation	2.57
Citigroup, Inc.	2.22
Wal-Mart Stores, Inc.	1.98
Pfizer, Inc.	1.79
Bank of America Corporation	1.68
Johnson & Johnson	1.67
American International Group	1.52
International Business Machines	1.45

3/05

C Fund Facts

By law, the C Fund must be invested in a portfolio designed to replicate the performance of an index that includes stocks representing the U.S. stock market. The Federal Retirement Thrift Investment Board has chosen as its benchmark the S&P 500 index, which tracks the performance of major U.S. companies and industries.

The **S&P 500 index** is an index of 500 large to medium-size U.S. companies that are traded in the U.S. stock markets. The index was designed by Standard & Poor's Corporation (S&P) to provide a representative measure of U.S. stock market performance. As of December 31, 2004, 493 common stocks and 7 real estate investment trusts (REITs) were included in the index. (REITs accounted for 0.6 percent of the index's market value.) The companies in the index represented 113 separate industries classified into the 10 major industry groups shown in the chart. The S&P 500 index made up 78% of the market value of the U.S. stock markets.



The S&P 500 is considered a "big company" index. As of December 31, 2004, the largest 100 companies in the S&P 500 represented 66% of the index's market value. Currently, the S&P 500 index is weighted by full market capitalization. A company's weighting in the index is the total market value of the company (that is, the share price multiplied by the total number of shares outstanding) as a percentage of the combined market value of all companies in the index. During 2005, the S&P 500 index will move to a float-adjusted market capitalization, in which a company's market value and its weighting in the index are calculated using the number of shares that are freely traded, rather than all outstanding shares. Shares that are not freely traded, such as the holdings of controlling shareholders and their families, company management, and other companies, are excluded from the calculation.

Barclays Equity Index Fund—The C Fund is invested in the Barclays Equity Index Fund. The C Fund holds all the stocks included in the S&P 500 index in virtually the same weights that they have in the index. The performance of the Equity Index Fund is evaluated on the basis of how closely its returns match those of the S&P 500 index. A portion of Equity Index Fund assets is reserved to meet the needs of daily client activity. This liquidity reserve is invested in S&P 500 index futures contracts.

The C Fund invests in the Barclays Equity Index Fund by purchasing shares of the Barclays Equity Index Fund "E," which in turn holds primarily shares of the Barclays Equity Index Master Fund. As of December 31, 2004, C Fund holdings constituted $63.2 billion of the Equity Index Master Fund, which itself held $124.0 billion of securities.

Thrift Savings Plan

S FUND

Small Capitalization Stock Index Investment Fund

Fund Information

Net Assets
as of December 31, 2004
$10.0 billion

2004 Administrative Expense Ratio
.06% (6 basis points)
$0.60 per $1,000 account balance

Benchmark Index
Dow Jones Wilshire 4500 Completion stock index
www.wilshire.com or www.djindexes.com

Asset Manager
Barclays Global Investors

Returns

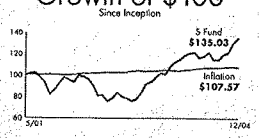
as of December 31, 2004

	S Fund[1]	DJW 4500 Index[2]
1 Year	18.0	18.1
5 Year	N/A	1.3
10 Year	N/A	11.9
Since Inception May 1, 2001	8.5	8.8

[1]After expenses [2]Without deductions

Growth of $100

Since Inception

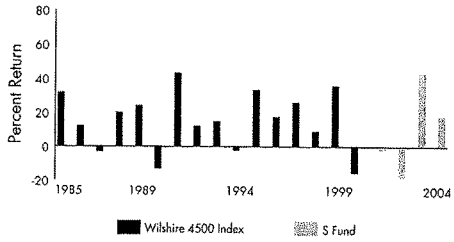


Key Features

- The S Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of small and medium-size U.S. companies.
- The objective of the S Fund is to match the performance of the Dow Jones Wilshire 4500 Completion (DJW 4500) index, a broad market index made up of stocks of U.S. companies not included in the S&P 500 index.
- There is a risk of loss if the DJW 4500 index declines in response to changes in overall economic conditions (market risk).
- Earnings consist of gains and losses in the prices of stocks, and dividend income.

S Fund Returns*

1985–2004



*For periods before the inception of the S Fund, the rate shown is the return of the DJW4500 index (without deduction for management fees, trading costs, or administrative expenses).

DJW 4500 Top Ten

Company	Percent of Index
Berkshire Hathaway, Inc. (Class A stock)	3.08
Liberty Media Corporation (Class A stock)	0.97
Genentech, Inc.	0.86
The DIRECTV Group, Inc.	0.52
IAC InterActiveCorp	0.47
Juniper Networks, Inc.	0.46
Amazon.com, Inc.	0.44
Sirius Satellite Radio, Inc.	0.33
Kraft Foods, Inc. (Class A stock)	0.31
Vornado Realty Trust	0.30

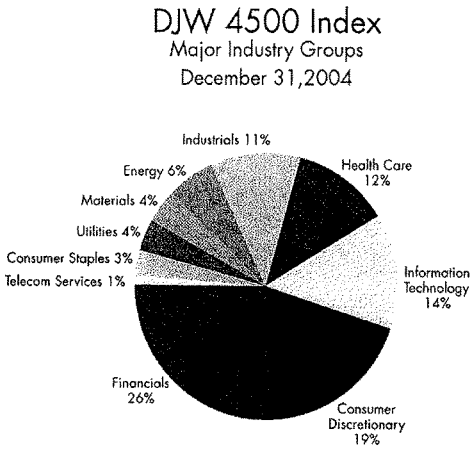
3/05

S Fund Facts

By law, the S Fund must be invested in a portfolio designed to replicate the performance of an index of U.S. common stocks, excluding those that are held in the C Fund. The Federal Retirement Thrift Investment Board has chosen, as its benchmark, the Dow Jones Wilshire 4500 Completion index, which tracks the performance of the actively traded non-S&P 500 stocks in the U.S. stock market.

The **Dow Jones Wilshire 4500 Completion index (DJW 4500 index)** is an index of all actively traded U.S. common stocks and real estate investment trusts (REITs) that are not included in the S&P 500 index. The index is designed to be the broadest measure of the non-S&P 500 domestic stock markets. As of December 31, 2004, the index included 4,493 common stocks and 223 REITs. (REITs accounted for 7.8% of the index's market value.) The DJW 4500 index made up 22% of the market value of the U.S. stock markets; the S&P 500 accounted for the other 78%. Thus, the S Fund and the C Fund combined cover virtually the entire U.S. stock market.

The DJW 4500 index is weighted by float-adjusted market capitalization, in which a company's market value and its weighting in the index are calculated using the number of shares that are freely traded, rather than all outstanding shares. Shares that are not freely traded, such as the holdings of controlling shareholders and their families, company management, and other companies, are excluded from the calculation. A company's weighting in the index is the float-adjusted market value of the company (that is, the share price multiplied by the number of freely traded shares outstanding) as a percentage of the combined float-adjusted market value of all companies in the index. As of December 31, 2004, the largest 100 companies in the DJW 4500 index represented 24% of the index's market value.



Barclays Extended Market Index Fund—The S Fund is invested in the Barclays Extended Market Index Fund. The DJW 4500 index contains a large number of stocks, including illiquid stocks with low trading volume and stocks with prices less than $1.00 per share. Therefore, it is not practical for the Barclays Extended Market Index Fund to invest in every stock in the index. The Barclays fund holds the stocks of most of the companies in the index with market values greater than $1 billion. However, a mathematical sampling technique is used to select among the smaller stocks. Barclays' mathematical model considers size and industry group to match the industry weights in the index. Within each industry group, Barclays selects stocks that, together, are expected to produce a return that is very close to the industry's return in the DJW 4500 index. The performance of the Extended Market Index Fund is evaluated on the basis of how closely its returns match those of the DJW 4500 index. A portion of Extended Market Index Fund assets is reserved to meet the needs of daily client activity. This liquidity reserve is invested in futures contracts of the S&P 400 and Russell 2000 (other broad equity indexes).

The S Fund invests in the Barclays Extended Market Index Fund by purchasing shares of the Barclays Extended Market Index Fund "E," which in turn holds primarily shares of the Barclays Extended Market Index Master Fund. As of December 31, 2004, S Fund holdings constituted $9.6 billion of the Extended Market Index Master Fund, which itself held $14.8 billion in securities.

Thrift Savings Plan

I FUND

International Stock Index Investment Fund

Fund Information

Net Assets
as of December 31, 2004
$7.3 billion

2004 Administrative Expense Ratio
.06% (6 basis points)
$0.60 per $1,000 account balance

Benchmark Index
Morgan Stanley Capital International EAFE stock index
www.msci.com

Asset Manager
Barclays Global Investors

Returns

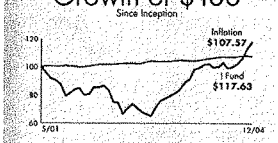
as of December 31, 2004

	I Fund[1]	EAFE Index[2]
1 Year	20.0	20.2
5 Year	N/A	-1.1
10 Year	N/A	5.6
Since Inception May 1, 2001	4.5	4.9

[1]After Expenses [2]Without Deductions

Growth of $100

Since Inception

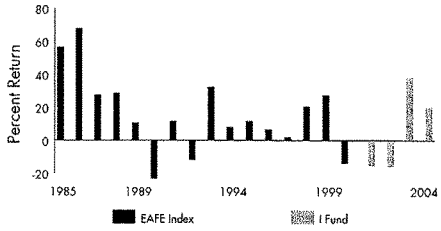


Key Features

- The I Fund offers the opportunity to earn a potentially high investment return over the long term by investing in the stocks of companies in developed countries outside the U.S.
- The objective of the I Fund is to match the performance of the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) index, a broad international market index, made up of stocks of companies in 21 developed countries.
- There is a risk of loss if the EAFE index declines in response to changes in overall economic conditions (market risk) or in response to increases in the value of the U.S. dollar (currency risk).
- Earnings consist of gains and losses in the prices of stocks, currency changes relative to the U.S. dollar, and dividend income.

I Fund Returns*

1985–2004



* For periods before the inception of the I Fund, the rate shown is the return of the EAFE index (without deduction for management fees, trading costs, or administrative expenses).

EAFE Top Ten

Company	Percent of Index
BP	2.36
HSBC Holdings (GB)	2.08
Vodafone Group	2.00
GlaxoSmithKline	1.54
Total	1.43
Novartis	1.34
Royal Dutch Petroleum Company	1.34
Toyota Motor Corporation	1.31
Nestlé	1.18
Royal Bank of Scotland	1.18

3/05

I Fund Facts

By law, the I Fund must be invested in a portfolio designed to track the performance of an index of common stocks, representing international stock markets outside of the United States. The Federal Retirement Thrift Investment Board has chosen as its benchmark the Morgan Stanley Capital International EAFE (Europe, Australasia, Far East) index, which tracks the overall performance of the major companies and industries in the European, Australian, and Asian stock markets.

A significant component of the returns on the EAFE index (and the I Fund) results from changes in the value of the U.S. dollar relative to the currencies of the countries represented in the index. For example, the EAFE index earned 20.2% in 2004, but part of that return reflected a decline in the value of the U.S. dollar (which increased the return). If the value of the dollar had been unchanged during 2004, the return would have been 12.7%.

The **EAFE Index**, designed by Morgan Stanley Capital International (MSCI), is an index of the equity markets of the developed world outside of the United States and Canada. It is the most widely used international stock index. As of December 31, 2004, the index covered the equity markets of 21 countries, as shown in the table.

The companies in the EAFE index are large companies. The index is weighted by float-adjusted market capitalization, in which a company's market value and its weighting in the index are calculated using the number of shares that are freely traded, rather than all outstanding shares. Shares that are not freely traded, such as the holdings of controlling shareholders and their families, company management, and other companies, are excluded from the calculation. Also excluded are shares subject to foreign ownership limitations imposed by governments or companies. Within each country, a company's weighting is the float-adjusted market value of the company (that is, the share price multiplied by the number of freely traded shares outstanding) as a percentage of the combined float-adjusted market value of all companies in the index. Similarly, a country's weighting in the EAFE index is the float-adjusted market value of its stock market as a percentage of the combined float-adjusted market value of all stock markets included in the EAFE index.

EAFE Index
Country Composition
December 31, 2004

Country	Percent of Total Value of Index	Number of Companies
Europe		
Austria	0.4	13
Belgium	1.3	21
Denmark	0.8	20
Finland	1.4	19
France	9.4	57
Germany	7.0	47
Greece	0.6	20
Ireland	0.9	15
Italy	4.3	41
Netherlands	4.8	26
Norway	0.6	14
Portugal	0.4	10
Spain	4.1	32
Sweden	2.5	44
Switzerland	6.8	35
United Kingdom	25.0	152
Europe	70.3	566
Australasia/Far East		
Australia	5.1	71
Hong Kong	1.7	38
Japan	21.9	344
New Zealand	0.2	16
Singapore	0.8	35
Australasia/Far East	29.7	504
Total EAFE Index	**100%**	**1070**

Source: Morgan Stanley Capital International

Barclays EAFE Index Fund—The Barclays fund holds common stocks of all the companies represented in the EAFE index in virtually the same weights that they have in the index. The return on the Barclays fund (and on the I Fund) will differ from that of the EAFE index on days when Barclays makes a "fair valuation" adjustment to reprice the securities held by the fund. Fair valuation adjustments are made on days when there are large movements in either U.S. equity markets or exchange rates after the foreign markets have closed. Fair valuation prevents traders from "market timing" by making investment decisions based on "stale" prices, thus diluting the returns of other TSP participants who invest in the I Fund.

The performance of the EAFE index fund is evaluated on the basis of how closely its returns match those of the EAFE index, without the effect of fair valuation. A portion of EAFE Index Fund assets is reserved to meet the needs of daily client activity. This liquidity reserve is invested in futures contracts on the local stock indexes of the countries in the EAFE index. These include the United Kingdom's FTSE 100, Germany's DAX, France's CAC 40, Australia's ALL ORDS, Japan's Nikkei 300, and Hong Kong's Hang Seng.

The I Fund invests in the Barclays EAFE Index Fund by purchasing shares of the Barclays EAFE Index Fund "E," which in turn holds primarily shares of the Barclays EAFE Index Master Fund. As of December 31, 2004, I Fund holdings constituted $7.0 billion of the EAFE Index Master Fund, which itself held $42.5 billion of securities.

Attachment C

2004 Investment Fund Cash Flows
(Total Number of Trading Days: 249)

	F Fund	C Fund	S Fund	I Fund
Largest Contribution	$54,069,361	$119,987,200	$137,507,052	$112,921,166
Largest Redemption	($59,690,863)	($113,570,827)	($102,063,650)	($55,052,105)
Net Contribution/(Redemption) in 2004	($746,796,146)	$2,799,621,472	$2,773,162,407	$3,939,336,454
Average Amount Traded (absolute value)	$9,614,279	$30,059,995	$19,721,103	$19,560,452

Attachment D

Deloitte.

INDEPENDENT AUDITORS' REPORT

To the Board Members and the Executive Director
Federal Retirement Thrift Investment Board

We have audited the accompanying statements of net assets available for benefits of the Thrift Savings Fund (the "Fund") as of December 31, 2004 and 2003, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Federal Retirement Thrift Investment Board. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Fund as of December 31, 2004 and 2003, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

McLean, Virginia
March 4, 2005

THRIFT SAVINGS FUND

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31, 2004 AND 2003
(In thousands)

	2004	2003
ASSETS:		
Investments, at fair value:		
U.S. Government Securities Investment Fund	$ 56,670,880	$ 51,121,034
Barclays U.S. Debt Index Fund	9,732,943	10,071,287
Barclays Equity Index Fund	63,218,611	54,303,506
Barclays Extended Market Index Fund	9,644,143	5,622,444
Barclays EAFE Index Fund	7,021,069	2,211,875
Participant loans	5,105,715	5,130,170
Total investments	151,393,361	128,460,316
Receivables:		
Employer contributions	166,045	151,497
Participant contributions	507,034	446,574
Total receivables	673,079	598,071
Fixed assets:		
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of $7,342 in 2004 and $6,093 in 2003	4,533	358
Data processing software, net of accumulated amortization of $17,577 in 2004 and $12,528 in 2003	37,306	39,357
Total fixed assets	41,839	39,715
Other assets	5,460	11,236
Total assets	152,113,739	129,109,338
LIABILITIES:		
Accounts payable	22,148	29,372
Accrued payroll and benefits	921	1,194
Benefits and participant loans payable	40,941	54,181
Deferred rent and lease credits	217	121
Due for securities purchased	35,757	94,348
Total liabilities	99,984	179,216
FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	(4,829)	(4,978)
NET ASSETS AVAILABLE FOR BENEFITS	$ 152,008,926	$ 128,925,144

See notes to financial statements.

THRIFT SAVINGS FUND

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In thousands)

	2004	2003
ADDITIONS:		
Investment income (loss):		
U.S. Government Securities Investment Fund	$ 2,346,104	$ 2,074,004
Net appreciation (depreciation) in fair value of Barclays funds:		
Barclays U.S. Debt Index Fund	408,397	455,956
Barclays Equity Index Fund	6,115,843	11,316,657
Barclays Extended Market Index Fund	1,249,934	914,990
Barclays EAFE Index Fund	870,403	358,102
Interest income on participant loans	237,684	222,422
Asset Manager rebates	1,778	1,616
Less investment expenses	(4,503)	(3,708)
Net investment income (loss)	11,225,640	15,340,039
Contributions:		
Participant	11,980,077	10,366,123
Employer	4,238,199	3,887,260
Total contributions	16,218,276	14,253,383
Total additions	27,443,916	29,593,422
DEDUCTIONS:		
Benefits paid to participants	4,110,891	2,774,685
Administrative expenses	91,896	75,038
Participant loans declared taxable distributions	157,496	130,559
Total deductions	4,360,283	2,980,282
CHANGE IN FUNDS RESTRICTED FOR THE PURCHASE OF FIDUCIARY INSURANCE	149	375
Net increase	23,083,782	26,613,515
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	128,925,144	102,311,629
End of year	$152,008,926	$128,925,144

See notes to financial statements.

THRIFT SAVINGS FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003

1. PLAN DESCRIPTION

The following description is provided for general information purposes. Participants should refer to the *Summary of the Thrift Savings Plan for Federal Employees* or the *Summary of the Thrift Savings Plan for the Uniformed Services* and applicable legislation for more complete information.

General—The Thrift Savings Plan (the "Plan") is a retirement savings and investment plan for Federal employees and members of the uniformed services. It was authorized by the United States Congress in the Federal Employees' Retirement System Act of 1986 ("FERSA"). The Plan provides Federal employees and members of the uniformed services with a savings and tax benefit similar to what many private corporations offer their employees. The Plan was primarily designed to be a key part of the retirement package (along with a basic annuity benefit and Social Security) for employees who are covered by the Federal Employees' Retirement System ("FERS").

The Plan is administered by an independent Government agency, the Federal Retirement Thrift Investment Board (the "Agency"), which is charged with operating the Plan prudently and solely in the interest of the participants and their beneficiaries. Assets of the Plan are maintained in the Thrift Savings Fund (the "Fund").

Federal employees who are participants of FERS, the Civil Service Retirement System ("CSRS"), or equivalent retirement plans, as provided by statute, and members of the uniformed services, are eligible to join the Plan immediately upon being hired. Generally, FERS employees are those employees hired on or after January 1, 1984, while CSRS employees are employees hired before January 1, 1984, who have not elected to convert to FERS. Each group has different rules that govern contribution rates. As of December 31, 2004, there were approximately 3.4 million participants in the Plan, with approximately 2.5 million contributing their own money.

Contributions—The Plan is a defined contribution plan and, as such, specifies how much an employee may contribute and how much the employing agency must contribute to each FERS employee's account. In 2004 and 2003, FERS employees could contribute up to 14 percent and 13 percent, respectively, of their basic pay each pay period, on a tax-deferred basis, and were entitled to receive agency matching contributions on the first 5 percent, according to a formula prescribed by FERSA (5 U.S.C. § 8432(c)). In 2004 and 2003, CSRS employees and members of the uniformed services could contribute up to 9 percent and 8 percent, respectively, of their basic pay each pay period, on a tax-deferred basis. Uniformed services members may also contribute up to 100% of designated special pay, incentive pay, and bonuses. The Federal Government or Uniformed Services does not match any of this amount. For FERS employees, their employing agencies also contribute an agency automatic contribution equal to 1 percent of each employee's basic pay each pay period, as defined in FERSA (5 U.S.C. § 8401(4)).

In accordance with the Internal Revenue Code, no participant could contribute more than $13,000 and $12,000 in 2004 and 2003, respectively. This limit will increase to $14,000 in 2005. Participants age 50 and older, who are already contributing the maximum amount of contributions for which they are eligible, may make supplemental tax-deferred catch-up contributions (up to $2,000 in 2003, $3,000 in

2004 and $4,000 in 2005) from their basic pay. Participants may also transfer funds from traditional individual retirement accounts ("IRAs") or other eligible employer plans into the Plan.

Investments—Pursuant to FERSA (5 U.S.C. § 8438), Plan participants are offered five investment funds: the Government Securities Investment Fund ("G Fund"), the Fixed Income Investment Fund ("F Fund"), the Common Stock Index Investment Fund ("C Fund"), the Small Capitalization Stock Index Investment Fund ("S Fund"), and the International Stock Index Investment Fund ("I Fund"). Participants may allocate any portion of their contributions among the five investment funds. Also, participants may reallocate their entire account balance among the five investment funds through the interfund transfer process. Participants can make an interfund transfer daily, without an annual limit.

The Agency has contracted with Barclays Global Investors ("Barclays") to manage the index funds in which the F, C, S, and I Fund assets are invested.

Vesting—Plan participants are immediately vested in all of their own contributions and attributable earnings. Participants are also immediately vested in any agency matching contributions made to their accounts and attributable earnings. In order to be vested in the agency automatic (1%) contributions, a FERS employee must have either 2 or 3 years of service as described in section 8432(g) of FERSA. FERS employees who are not vested and who separate from the Federal Government forfeit all agency automatic contributions and attributable earnings. Forfeited funds, consisting primarily of monies forfeited pursuant to 8432(g), totaled $10,822,000 in 2004 and $7,824,000 in 2003, and, by law, are used by the Fund to pay accrued administrative expenses. If the forfeited funds are not sufficient to meet all administrative expenses, earnings on investments are then charged.

Participant Accounts—Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contribution, agency automatic and matching contributions, and charged with withdrawals. The value of the participant's account reflects the number of shares and the daily share prices of the funds in which the participant is invested. Administrative expenses are a component of the share price calculation. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Beginning July 1, 2004, the Agency began providing toll-free telephone service to participants and beneficiaries. The toll-free service provides account or transaction information via the ThriftLine's automated telephone service 24 hours a day, 7 days a week. Participant service representatives can be reached through this service at one of the two Plan call centers between the expanded hours of 7:00 am and 9:00 pm Eastern time, Monday through Friday.

Participant Loans—Participants may apply for loans from their accounts. There are two types of Plan loans: general purpose and residential. General purpose loans can be obtained for any purpose, with a repayment period from 1 to 5 years. Residential loans can be obtained for the purpose of purchasing a primary residence, with a repayment period from 1 to 15 years. Participant loans may only be taken from participant contributions and attributable earnings. The minimum loan amount is $1,000.

The interest rate for loans is the G Fund rate at the time the loan agreement is issued by the Agency's record keeper. The rate is fixed at this level for the life of each loan. Participant loans are valued at their unpaid balances, which approximate fair value. Interest earned on loans is allocated to the participant account upon repayment.

By regulation, the Agency must identify each calendar quarter any participant loan that is in default. The participant then has until the end of the following calendar quarter to pay the overdue amount. If

not paid, a taxable distribution of the unpaid loan balance, plus accrued interest, will be declared. Participants should refer to the booklet titled *TSP Loans* for more information.

Payment of Benefits—After leaving service, participants may elect benefit withdrawals in the form of a partial withdrawal or a full withdrawal as a single payment, a series of payments, or a life annuity. Participants may choose to combine any two, or all three, of the available full withdrawal options. Participants should refer to the booklet titled *Withdrawing Your TSP Account After Leaving Federal Service* for more complete information.

Participants should refer to the booklet, *TSP In-Service Withdrawals,* for information on withdrawal options while employed in Federal service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recognized when incurred. Benefits and participant loans payable are recorded when disbursed from participants' accounts.

Investments—All investments are stated at fair value, based upon the quoted market values of the underlying securities at year-end. The Agency invests in (or redeems from) the Fund's investment funds on a daily basis. Purchases and sales of securities are recorded on a trade-date basis.

During the years ended December 31, 2004 and 2003, the Fund's investment funds consisted of the following (objectives of the investment funds are described in the booklet *Guide to TSP Investments*):

The G Fund was invested in short-term nonmarketable U.S. Treasury securities specially issued to the Fund. All investments in the G Fund earned interest at a rate that is equal, by law, to the average of market rates of return on outstanding U.S. Treasury marketable securities with 4 or more years to maturity.

The F Fund was invested primarily in the Barclays U.S. Debt Index Fund "E", which in turn holds shares of the Barclays U.S. Debt Index Master Fund. Both the U.S. Debt Index Fund "E" and the Master Fund are passively managed commingled funds that track the Lehman Brothers U.S. Aggregate Bond Index.

As of December 31, 2004, the Barclays U.S. Debt Index Master Fund contained approximately 38 percent mortgage-backed securities, 22 percent investment-grade corporate securities (U.S. and non-U.S.), 25 percent U.S. Treasury securities, 11 percent Federal agency securities, and 4 percent foreign government securities (dollar-denominated securities traded in the U.S. that are issued by foreign or international entities (sovereigns, multilateral lending institutions, foreign agencies, and foreign local governments)). The mortgage-backed sector contains securities guaranteed by the Government National Mortgage Association, Fannie Mae, and Freddie Mac, as well as commercial mortgaged-backed securities.

As of December 31, 2004, the Barclays U.S. Debt Index Master Fund held 3,889 securities totaling $26.3 billion, with a weighted average life of 6.29 years. The U.S. Debt Index Fund "E" held shares of the Master Fund totaling $11.0 billion, and the F Fund holdings constituted $9.7 billion of the December 31, 2004, value of the "E" Fund.

The C Fund was invested primarily in the Barclays Equity Index Fund "E", which in turn holds shares of the Barclays Equity Index Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Equity Index Fund "E" and the Master Fund are passively managed commingled funds that track the S&P 500 Index.

The Equity Index Master Fund holds stocks of all the companies represented in the S&P 500 index in virtually the same weights as they are represented in the S&P 500 index. As of December 31, 2004, the Barclays Equity Index Master Fund held $124.0 billion of securities. The Barclays Equity Index Fund "E" held shares of the Master Fund totaling $82.6 billion, and the C Fund holdings constituted $63.2 billion of the December 31, 2004, value of the "E" Fund.

The S Fund was invested primarily in the Barclays Extended Market Index Fund "E", which in turn holds shares of the Barclays Extended Market Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Barclays Extended Market Index Fund "E" and the Master Fund are passively managed commingled funds that track the Wilshire 4500 index by holding most of the stocks with larger capitalizations in virtually the same weights as they are represented in the index, and by holding a representative sample of the remaining stocks in the index.

As of December 31, 2004, the Barclays Extended Market Index Master Fund held $14.8 billion of securities. The Barclays Extended Market Index Fund "E" held shares of the Master Fund totaling $11.0 billion, and the S Fund holdings constituted $9.6 billion of the December 31, 2004, value of the "E" Fund.

The I Fund was invested primarily in the Barclays EAFE (Europe, Australasia, Far East) Index Fund "E", which in turn holds shares of the Barclays EAFE Index Master Fund, plus a liquidity reserve that is invested in futures contracts. Both the Barclays EAFE Index Fund "E" and the Master Fund are passively managed commingled funds that track the Morgan Stanley Capital International EAFE Index. The Barclays EAFE Index Master Fund holds stocks of all the companies represented in the EAFE index in virtually the same weights as they are represented in the index.

As of December 31, 2004, the Barclays EAFE Index Master Fund held $42.5 billion of securities. The Barclays EAFE Index Fund "E" held shares of the Master Fund totaling $6.9 billion, and the I Fund holdings constituted $7.0 billion of the December 31, 2004, value of the "E" Fund.

The F Fund, C Fund, S Fund, and I Fund include temporary investments in the same securities held by the G Fund pending purchase of shares in their respective index funds and to cover liquidity needs, such as loans and withdrawals from the Fund.

Fixed Assets—All fixed assets were recorded at historical cost. Assets with a useful life in excess of 1 year and a cost greater than $100,000 are capitalized and expensed over their useful life using the straight-line method. The estimated useful lives are as follows:

Furniture and equipment	3 to 10 years
Leasehold improvements	10 years
Data processing software	3 to 10 years

Earnings Allocation—Beginning in June 2003, net earnings are used to calculate the daily share price of each investment fund as defined in regulations issued by the Agency (5 CFR Part 1645). Prior to June 2003, net earnings were allocated to participant accounts monthly.

Contributions Receivable—Contributions receivable are estimated as the amount of contributions recorded through the first 2 weeks of the month following the date of the financial statements and represent both participant and employer portions of contributions.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

3. INCOME TAX STATUS

FERSA (5 U.S.C. § 8440(a)(1)) states that the Plan shall be treated as a trust as described in section 401(a) of the Internal Revenue Code ("Code"), which is exempt from taxation under section 501(a) of the Code. This status was reaffirmed in the Tax Reform Act of 1986, Section 1147 (codified at I.R.C. § 7701(j)). It is not necessary for the Plan to apply for a tax status determination letter since it is qualified by statute.

4. COMMITMENTS AND CONTINGENCIES

The Agency has entered into Interagency Agreements with the Department of Agriculture's National Finance Center ("NFC"). Under the agreements, the NFC performs detailed record keeping of participant account balances (operations) and maintains a service office which responds to telephone and written inquiries from participants. These agreements may be canceled by the Agency with 3 months' notice or by the Department of Agriculture with 1 year's notice. The NFC's fees for fiscal year 2005 are estimated to be $30,378,000.

The Agency has entered into a contract with SI International to continue to perform TSP software maintenance and development, systems operations, and record-keeping support. The annual cost of this service is approximately $18 million.

On March 8, 2004, the Agency contracted with Spherix, Incorporated of Beltsville, Maryland, to provide parallel call center support services to participants. The new call center supplements services provided by NFC. The two call centers complement each other during normal operations and back up each other during weather-related or other local events which could otherwise interrupt service. The term of the contract is one year, with four one-year options renewable at the Agency's discretion. The contract value for fiscal year 2005 is approximately $2.5 million.

The Agency leases the office space it occupies in Washington, D.C., under an operating lease. The operating lease ends in 2012, with an option to extend for two 5-year periods. Monthly base rental payments under the lease range from approximately $106,000 to $127,000. Rent expense is recorded on a straight-line basis over the lease term.

Future minimum lease commitments under the operating lease are as follows:

CY 2005	$ 1,321,679
CY 2006	1,348,236
CY 2007	1,375,267
CY 2008	1,402,772
CY 2009	1,430,752
Thereafter	4,466,298
	$11,345,004

5. FIDUCIARY INSURANCE

FERSA (5 U.S.C. § 8479(b)(1)) provides that the Executive Director may assess Federal agencies for the purpose of buying fiduciary insurance. The Agency's Executive Director exercised this authority in 1987 and required agencies to submit an amount equal to 1 percent of their agency automatic contributions. Such sums were collected during 1987 and 1988 and are invested to the extent not currently required to purchase fiduciary insurance. In February 1988, the Executive Director instructed agencies to discontinue the 1 percent fiduciary insurance contributions. The balance of funds available for the purchase of fiduciary insurance as of December 31, 2004 and 2003, were $4,829,000 and $4,978,000, respectively, which have been invested in the same securities held by the G Fund and included in total investments on the accompanying statements of net assets available for benefits, with a corresponding reduction in the net assets available for benefits. Such amounts cannot be, by statute, allocated to participants' accounts. The Agency has determined that the current insurance reserve is adequate to fund coverage needs for the foreseeable future.

* * * * * *

Attachment E

TIB-00-R-01

SECTION M
EVALUATION FACTORS FOR AWARD

M.1. INTRODUCTION

This section sets forth the criteria to be used for the evaluation of all offers. These criteria will be applied to each offer to determine the successful Offeror. The evaluation process is described below.

M.2. EVALUATION OF OFFERS

The Board will select an Offeror for award in accordance with the guidance in FAR Part 15, the Board's Source Evaluation and Selection Procedures, and the terms of this solicitation. The following specific events will occur in the evaluation process:

Step 1. The Board will review all proposals for compliance with the requirements of this solicitation document. Those proposals which do not conform, other than for minor irregularities, will not be given further consideration for award of a contract.

Step 2. The Board's Technical Evaluation Panel will evaluate all technical proposals for compliance with the requirements of Clause M.4, "Minimum Technical Qualifications." Those proposals which do not conform to the requirements of Clause M.4 will not be given further consideration for award of a contract.

Step 3. The Board's Technical Evaluation Panel will conduct a technical evaluation of all proposals which meet the requirements of Clause M.4 and which are not otherwise disqualified from consideration for award of a contract.

Step 4. The Board will evaluate cost/pricing proposals in accordance with Sections B, L, and M.

Step 5. The Board will consider the technical and cost/price evaluations of all rated proposals in order to determine that Offeror which proposes the best value in terms of lowest cost, superior service, or both.

Step 6. The Board will evaluate the responsibility of the apparent successful Offeror in light of the factors set forth in FAR Part 9.

M.3. EVALUATION FACTORS FOR AWARD

a. The Board will make award to that responsible Offeror whose offer conforms to the solicitation and is most advantageous to the Board, cost or price and other factors considered.

b. For this solicitation, technical quality is more important than cost. An evaluation of each offer will be made in the technical area, and if technically acceptable, in the cost area. The technical evaluation carries a 60% weight towards contract award, and the cost/price evaluation carries a 40% weight. A final cost/price score will be developed by combining the final technical evaluation and cost/price scores.

M.4. MINIMUM TECHNICAL QUALIFICATIONS

a. The Technical Proposal must demonstrate compliance with the minimum technical factors listed below in order to be considered for award. Proposals which do not conform to the requirements of this clause will be rejected by the Technical Evaluation Panel prior to technical evaluation.

b. All Offerors must demonstrate compliance with the following:

1. The Offeror must comply with the statutory requirements specified in §§ 8438 and 8478 of Title 5 of the United States Code and must agree to serve as a fiduciary of the Thrift Savings Fund, as defined in § 8477 of Title 5, with respect to all assets of the Fund under management or custody.

2. The Offeror must be a "qualified professional asset manager" as defined in § 8438 of Title 5 of the United States Code.

3. The Offeror must provide a commingled, daily-valued S&P 500 index fund suitable for a tax-qualified plan.

4. The proposed fund must have a minimum of $55 billion (market value as of June 30, 2000) in assets under management. (See Section J, Attachment 1, paragraph I.E.1 for a discussion of modular or tiered structure as it applies to the size of the proposed fund. That

discussion applies to the minimum size requirement as well). The proposed commingled fund must have been in operation for a minimum of 3 years.

5. The offered fund must be designed to replicate the S&P 500 index.

6. The offered fund must provide a securities lending program.

7. The offered fund must accept trades each business day, on a pre-notification trade basis (i.e., trade executed at closing stock prices on the trade date), with an investment notification deadline no earlier than 2:00 p.m., eastern time. The offered fund must accept funds to cover purchases one business day after the trade date and must wire redemption proceeds one business day after the trade date.

8. The Offeror must provide, through an electronic data file in the format provided by the Board, to the TSP record keeper on each business day the TSP's share of total earnings, in dollars, for that business day. Total earnings include capital gain or loss (net of trading costs), dividend income, securities lending income, and any income from the cash account. The daily earnings are to be transmitted as soon as available each business day, but no later than 6:00 p.m. eastern time. The offeror must also provide other required information, transaction summary reports, monthly transaction reports, and monthly performance reports in a timely manner.

9. The Offeror must provide the Board with its established proxy voting policies and agree to submit reports to the Board explaining any exceptions to those policies during the term of the contract.

M.5. TECHNICAL EVALUATION

Upon determining Offeror compliance with the minimal technical criteria identified in paragraph M.4 above, the technical evaluation panel will evaluate those proposals for technical compliance with the requirements of this solicitation document. The evaluation will be consistent with the evaluation criteria identified below:

1. Organizational Experience - 10 points

a. Qualifications of portfolio managers, administrative account servicing, and other investment personnel.

b. Size, growth, and longevity of proposed fund.

2. Trading - 30 points

d. Demonstrated ability and opportunity to minimize trading costs.

3. Tracking of the S&P 500 Index - 10 points

4. Fiduciary and Administrative Competence - 10 points

a. Ability to carry out fiduciary responsibilities.

b. Quality of securities lending program.

c. Comprehensiveness of proxy voting policies.

d. Ability to provide timely and accurate reports containing the required information.

M.6. COST/PRICE EVALUATION

a. The Board will analyze all technically acceptable proposals to determine the price of each proposal. The Board anticipates assigning 40 points to the price proposal evaluation.

b. The Board will use the information submitted in Section B.3 to determine the proposal with the lowest net fees (defined as management fees plus custodian fees less securities lending income) at each asset level and will assign lower point scores to those proposals with higher net fees at each level, in accordance with the following schedule:

Net Fees On	Point Allocation
First $60 billion	25 points
Above $60 billion	15 points

c. Cost evaluation points are attributed to each Offerors' net fees as follows: The lowest Offeror receives maximum points for each category. For every basis point above the lowest net fee at each asset level, the corresponding score is reduced 3 points (incremental increases of less than one basis point reduce the score proportionately, e.g., a .5

basis point increase in fees results in a 1.5 point reduction in score).

d. The technical points earned as a result of the evaluation in M.5 will be added to the results of the M.6 evaluation, rendering a total score for each proposal.

M.7. AWARD

a. While the total score will be an important factor in contract award selection, the Board will award any contract resulting from this solicitation to that Offeror presenting the most advantageous offer to the Board, all factors considered.

b. The Board may reject any or all offers, accept other than the offer proposing the lowest management fees, and waive informalities and minor irregularities in offers received.

c. The Board may award a contract on the basis of initial offers received, without discussions. Therefore, each initial offer should contain the Offeror's best terms from a price and technical standpoint.

M.8. TIME OF AWARD

The Board expects to make an award by October 2000 to allow the selected Offeror to conduct system tests associated with the new Thrift Savings Plan (TSP) record keeping system prior to initiating fund management on January 1, 2001.

NOTHING FOLLOWS

SECTION M
EVALUATION FACTORS FOR AWARD

M.1. INTRODUCTION

This section sets forth the criteria to be used for the evaluation of all offers. These criteria will be applied to each offer to determine the successful Offeror. The evaluation process is described below.

M.2. EVALUATION OF OFFERS

The Board will select an Offeror for award in accordance with the guidance in FAR Part 15, the Board's Source Evaluation and Selection Procedures, and the terms of this solicitation. The following specific events will occur in the evaluation process:

Step 1. The Board will review all proposals for compliance with the requirements of this solicitation document. Those proposals which do not conform, other than for minor irregularities, will not be given further consideration for award of a contract.

Step 2. The Board's Technical Evaluation Panel will evaluate all technical proposals for compliance with the requirements of Clause M.4, "Minimum Technical Qualifications." Those proposals which do not conform to the requirements of Clause M.4 will not be given further consideration for award of a contract.

Step 3. The Board's Technical Evaluation Panel will conduct a technical evaluation of all proposals which meet the requirements of Clause M.4 and which are not otherwise disqualified from consideration for award of a contract.

Step 4. The Board will evaluate cost/pricing proposals in accordance with Sections B, L, and M.

Step 5. The Board will consider the technical and cost/price evaluations of all rated proposals in order to determine that Offeror which proposes the best value in terms of lowest cost, superior service, or both.

Step 6. The Board will evaluate the responsibility of the apparent successful Offeror in light of the factors set forth in FAR Part 9.

M.3. EVALUATION FACTORS FOR AWARD

a. The Board will make award to that responsible Offeror whose offer conforms to the solicitation and is most advantageous to the Board, cost or price and other factors considered.

b. For this solicitation, technical quality is more important than cost. An evaluation of each offer will be made in the technical area, and if technically acceptable, in the cost area. The technical evaluation carries a 60% weight towards contract award, and the cost/price evaluation carries a 40% weight. A final cost/price score will be developed by combining the final technical evaluation and cost/price scores.

M.4. MINIMUM TECHNICAL QUALIFICATIONS

a. The Technical Proposal must demonstrate compliance with the minimum technical factors listed below in order to be considered for award. Proposals which do not conform to the requirements of this clause will be rejected by the Technical Evaluation Panel prior to technical evaluation.

b. All Offerors must demonstrate compliance with the following:

1. The Offeror must comply with the statutory requirements specified in §§ 8438 and 8478 of Title 5 of the United States Code and must agree to serve as a fiduciary of the Thrift Savings Fund, as defined in § 8477 of Title 5, with respect to all assets of the Fund under management or custody.

2. The Offeror must be a "qualified professional asset manager" as defined in § 8438 of Title 5 of the United States Code.

3. The Offeror must provide a daily-valued, commingled, LBA index fund suitable for a tax-qualified plan.

4. The proposed fund must have a minimum of $3.5 billion (market value as of June 30, 2000) in assets under management. (See Section J, Attachment 1, paragraph

I.E.1 for a discussion of modular or tiered structure as it applies to the size of the proposed fund. That discussion applies to the minimum size requirement as well). The proposed commingled fund must have been in operation for a minimum of 3 years.

5. The offered fund must be designed to track the LBA index.

6. The offered fund must provide a securities lending program.

7. The offered fund must accept trades each business day, on a pre-notification trade basis (i.e., trade executed at closing prices on the trade date), with an investment notification deadline no earlier than 2:00 p.m., eastern time. The offered fund must accept funds to cover purchases one business day after the trade date and must wire redemption proceeds one business day after the trade date.

8. The Offeror must provide, through an electronic data file in the format provided by the Board, to the TSP record keeper on each business day the TSP's share of total earnings, in dollars, for that business day. Total earnings include capital gain or loss (net of trading costs), interest income, securities lending income, and any income from the cash account. The daily earnings are to be transmitted as soon as available each business day, but no later than 6:00 p.m. eastern time. The Offeror must also provide other required information, transaction summary reports, monthly transaction reports, and monthly performance reports in a timely manner.

M.5. TECHNICAL EVALUATION

Upon determining Offeror compliance with the minimal technical criteria identified in paragraph M.4 above, the technical evaluation panel will evaluate those proposals for technical compliance with the requirements of this solicitation document. The evaluation will be consistent with the evaluation criteria identified below:

1. Organizational Experience - 10 points

   a. Qualifications of portfolio managers, administrative account servicing, and other investment personnel.

   b. Size, growth, and longevity of proposed fund.

2. Trading - 30 points

   Demonstrated ability and opportunity to minimize trading costs.

3. Tracking of the LBA Index - 10 points

4. Fiduciary and Administrative Competence - 10 points

   a. Ability to carry out fiduciary responsibilities.

   b. Quality of securities lending program.

   c. Ability to provide timely and accurate reports containing the required information.

M.6. COST/PRICE EVALUATION

a. The Board will analyze all technically acceptable proposals to determine the price of each proposal. The Board anticipates assigning 40 points to the price proposal evaluation.

b. The Board will use the information submitted in Section B.3. to determine the proposal with the lowest net fees (defined as management fees plus custodian fees less securities lending income) at each asset level and will assign lower point scores to those proposals with higher net fees at each level, in accordance with the following schedule:

Net Fees On	Point Allocation
First $4.0 billion	25 points
Above $4.0 billion	15 points

c. Cost evaluation points are attributed to each Offerors' net fees as follows: The lowest Offeror receives maximum points for each category. For every basis point above the lowest net fee at each asset level, the corresponding score

is reduced 3 points (incremental increases of less than one basis point reduce the score proportionately, e.g., a .5 basis point increase in fees result in a 1.5 point reduction in score).

d. The technical points earned as a result of the evaluation in M.5 will be added to the results of the M.6 evaluation, rendering a total score for each proposal.

M.7. AWARD

a. While the total score will be an important factor in contract award selection, the Board will award any contract resulting from this solicitation to that Offeror presenting the most advantageous offer to the Board, all factors considered.

b. The Board may reject any or all offers, accept other than the offer proposing the lowest management fees, and waive informalities and minor irregularities in offers received.

c. The Board may award a contract on the basis of initial offers received, without discussions. Therefore, each initial offer should contain the Offeror's best terms from a price and technical standpoint.

M.8. TIME OF AWARD

The Board expects to make an award in CY 2000. The awardee will be expected to conduct system tests associated with the new Thrift Saving Plan record keeping system prior to initiating fund management.

NOTHING FOLLOWS

SECTION M
EVALUATION FACTORS FOR AWARD

M.1. INTRODUCTION

This section sets forth the criteria to be used for the evaluation of all offers. These criteria will be applied to each offer to determine the successful Offeror. The evaluation process is described below.

M.2. EVALUATION OF OFFERS

The Board will select an Offeror for award in accordance with the guidance in FAR Part 15, the Board's Source Evaluation and Selection Procedures, and the terms of this solicitation. The following specific events will occur in the evaluation process:

Step 1. The Board will review all proposals for compliance with the requirements of this solicitation document. Those proposals which do not conform, other than for minor irregularities, will not be given further consideration for award of a contract.

Step 2. The Board's Technical Evaluation Panel will evaluate all technical proposals for compliance with the requirements of Clause M.4, "Minimum Technical Qualifications." Those proposals which do not conform to the requirements of Clause M.4 will not be given further consideration for award of a contract.

Step 3. The Board's Technical Evaluation Panel will conduct a technical evaluation of all proposals which meet the requirements of Clause M.4 and which are not otherwise disqualified from consideration for award of a contract.

Step 4. The Board will evaluate cost/pricing proposals in accordance with Sections B, L, and M.

Step 5. The Board will consider the technical and cost/price evaluations of all rated proposals in order to determine that Offeror whose offer is most advantageous to the Board.

Step 6. The Board will evaluate the responsibility of the apparent successful Offeror in light of the factors set forth in FAR Part 9.

M.3. EVALUATION FACTORS FOR AWARD

a. The Board will make award to that responsible Offeror whose offer conforms to the solicitation and is most advantageous to the Board, cost or price and other factors considered.

b. For this solicitation, technical quality is more important than cost. An evaluation of each offer will be made in the technical area, and if technically acceptable, in the cost area. The technical evaluation carries an 85% weight towards contract award, and the cost/price evaluation carries a 15% weight. A final cost/price score will be developed by combining the final technical evaluation and cost/price scores.

M.4. MINIMUM TECHNICAL QUALIFICATIONS

a. The Technical Proposal must demonstrate compliance with the minimum technical factors listed below in order to be considered for award. Proposals which do not conform to the requirements of this clause will be rejected by the Technical Evaluation Panel prior to technical evaluation.

b. All Offerors must demonstrate compliance with the following:

1. The Offeror must comply with the statutory requirements specified in §§ 8438 and 8478 of Title 5 of the United States Code and must agree to serve as a fiduciary of the Thrift Savings Fund, as defined in § 8477 of Title 5, with respect to all assets of the Fund under management or custody.

2. The Offeror must be a "qualified professional asset manager" as defined in § 8438 of Title 5 of the United States Code.

3. The Offeror must provide a commingled, Year 2000-compliant, daily valued fund suitable for a tax-qualified plan.

4. The offered fund must have a minimum of $5 billion (market value as of January 31, 1999) in assets under management, excluding cash, assets assigned to other managers, and other non-managed assets. The offered commingled fund must have been in operation for a minimum of three years. The firm's key personnel must have at least three years equity index fund management experience and at least five years equity management experience.

5. The offered fund must track the Wilshire 4500 index.

6. The offered fund must provide a securities lending program.

7. The offered fund must accept trades each business day, on a pre-notification trade basis (i.e., trade executed at closing stock prices on the trade date), with an investment notification deadline no earlier than 2:00 p.m., EST. The offered fund must accept funds to cover purchases one business day after the trade date and must wire redemption proceeds one business day after the trade date.

8. The Offeror must provide, through an electronic data file in the format provided by the Board, to the TSP record keeper on each business day the TSP's share of the proposed fund's total earnings, in dollars, for that business day. Total earnings include capital gain or loss (net of trading costs), dividend income, securities lending income, and any income from the cash account. The daily earnings are to be transmitted as soon as available each business day, but no later than 6:00 p.m. EST.

M.5. TECHNICAL EVALUATION

Upon determining Offeror compliance with the minimal technical criteria identified in paragraph M.4. above, the technical evaluation panel will evaluate those proposals for technical compliance with the requirements of this solicitation document. The evaluation will be consistent with the evaluation criteria identified below:

I. Experience/Organization - 10 points

a. Sustained growth in assets and clients. (6 points)

b. Established Year 2000 compliance program. (4 points)

II. Trading - 45 points

Demonstrated ability to minimize trading costs through:

1. Crossing within the proposed fund

2. Other in-house crossing

3. Crossing with other funds or managers

4. Program trading

5. Other methods

III. Performance - 10 points

Actual (not simulated) historical performance must closely track the Wilshire 4500 index.

IV. Fiduciary/Custodian/Administration - 20 points

a. Established securities lending program with appropriate controls and cash collateral investment guidelines. (10 points)

b. Demonstrated ability to carry out fiduciary responsibilities with appropriate internal risk management guidelines and controls and experienced investment and administrative personnel. (5 points)

c. Demonstrated ability to provide consistently timely daily earnings (unit value) and timely and accurate reports with the required information. (5 points)

M.6. COST/PRICE EVALUATION

a. The Board will analyze all technically acceptable proposals to determine the price of each proposal. The Board anticipates assigning 15 points to the price proposal evaluation.

b. The Board will determine the proposal with the lowest management fees at each asset level and assign lower point scores to those proposals with higher management fees at each level. For every basis point above the lowest management fees at each asset level, the corresponding score is reduced one point (incremental increases of less than one basis point reduce the score proportionately, e.g., a .5 basis point increase in fees results in a .5 point reduction in score) in accordance with the following schedule:

Management Fees On:	Point Allocation
First $10 billion	9 points
Above $10 billion	6 points

M.7. AWARD

a. While the total score will be an important factor in contract award selection, the Board will award any contract resulting from this solicitation to that Offeror presenting the most advantageous offer to the Board, all factors considered.

b. The Board may reject any or all offers, accept other than the offer proposing the lowest management fees, and waive informalities and minor irregularities in offers received.

c. The Board may award a contract on the basis of initial offers received, without discussions. Therefore, each initial offer should contain the Offeror's best terms from a price and technical standpoint.

M.8. TIME OF AWARD

The Board expects to make an award by June 1999, to allow the selected Offeror to participate in the system tests for the new Thrift Savings Plan (TSP) record keeping system which are scheduled to be conducted from September through November, 1999.

NOTHING FOLLOWS

SECTION M
EVALUATION FACTORS FOR AWARD

M.1. INTRODUCTION

This section sets forth the criteria to be used for the evaluation of all offers. These criteria will be applied to each offer to determine the successful Offeror. The evaluation process is described below.

M.2. EVALUATION OF OFFERS

The Board will select an Offeror for award in accordance with the guidance in FAR Part 15, the Board's Source Evaluation and Selection Procedures, and the terms of this solicitation. The following specific events will occur in the evaluation process:

Step 1. The Board will review all proposals for compliance with the requirements of this solicitation document. Those proposals which do not conform, other than for minor irregularities, will not be given further consideration for award of a contract.

Step 2. The Board's Technical Evaluation Panel will evaluate all technical proposals for compliance with the requirements of Clause M.4, "Minimum Technical Qualifications." Those proposals which do not conform to the requirements of Clause M.4 will not be given further consideration for award of a contract.

Step 3. The Board's Technical Evaluation Panel will conduct a technical evaluation of all proposals which meet the requirements of Clause M.4 and which are not otherwise disqualified from consideration for award of a contract.

Step 4. The Board will evaluate cost/pricing proposals in accordance with Sections B, L, and M.

Step 5. The Board will consider the technical and cost/price evaluations of all rated proposals in order to determine that Offeror whose offer is most advantageous to the Board.

Step 6. The Board will evaluate the responsibility of the apparent successful Offeror in light of the factors set forth in FAR Part 9.

M.3. EVALUATION FACTORS FOR AWARD

a. The Board will make award to that responsible Offeror whose offer conforms to the solicitation and is most advantageous to the Board, cost or price and other factors considered.

b. For this solicitation, technical quality is more important than cost. An evaluation of each offer will be made in the technical area, and if technically acceptable, in the cost area. The technical evaluation carries an 85% weight towards contract award, and the cost/price evaluation carries a 15% weight. A final cost/price score will be developed by combining the final technical evaluation and cost/price scores.

M.4. MINIMUM TECHNICAL QUALIFICATIONS

a. The Technical Proposal must demonstrate compliance with the minimum technical factors listed below in order to be considered for award. Proposals which do not conform to the requirements of this clause will be rejected by the Technical Evaluation Panel prior to technical evaluation.

b. All Offerors must demonstrate compliance with the following:

1. The Offeror must comply with the statutory requirements specified in §§ 8438 and 8478 of Title 5 of the United States Code and must agree to serve as a fiduciary of the Thrift Savings Fund, as defined in § 8477 of Title 5, with respect to all assets of the Fund under management or custody.

2. The Offeror must be a "qualified professional asset manager" as defined in § 8438 of Title 5 of the United States Code.

3. The Offeror must provide a commingled, Year-2000 compliant, daily valued fund suitable for a tax-qualified plan.

4. The offered fund must have a minimum of $2.5 billion (market value as of January 31, 1999) in assets under management, excluding cash, assets assigned to other managers, and other non-managed assets. The offered commingled fund must have been in operation for a minimum of three years. The firm's key personnel must have at least three years equity index fund management experience and at least five years equity management experience.

5. The offered fund must replicate the EAFE index.

6. The offered fund must provide a securities lending program.

7. The offered fund must accept trades each business day, with an investment notification deadline no earlier than 2:00 p.m., EST. The offered fund must accept funds to cover purchases one business day after the trade date and must wire redemption proceeds one business day after the trade date.

8. The Offeror must provide, through an electronic data file in the format provided by the Board, to the TSP record keeper on each business day the TSP's share of the proposed fund's total earnings, in dollars, for that business day. Total earnings include capital gain or loss (net of trading costs), dividend income, securities lending income, and any income from the cash account. The daily earnings are to be transmitted as soon as available each business day, but no later than 6:00 p.m. EST.

M.5. TECHNICAL EVALUATION

Upon determining Offeror compliance with the minimal technical criteria identified in paragraph M.4. above, the technical evaluation panel will evaluate those proposals for technical compliance with the requirements of this solicitation document. The evaluation will be consistent with the evaluation criteria identified below:

I. Experience/Organization - 10 points

a. Sustained growth in assets and clients. (6 points)

b. Established Year 2000 compliance program. (4 points)

II. Trading - 45 points

Demonstrated ability to minimize trading costs through:

1. Crossing within the proposed fund

2. Other in-house crossing

3. Crossing with other funds or managers

4. Program trading

5. Other methods

III. Performance - 10 points

Actual (not simulated) historical performance must closely track the EAFE index.

IV. Fiduciary/Custodian/Administration - 20 points

a. Established securities lending program with appropriate controls and cash collateral investment guidelines. (10 points)

b. Demonstrated ability to carry out fiduciary responsibilities with appropriate internal risk management guidelines and controls and experienced investment and administrative personnel. (5 points)

c. Demonstrated ability to provide consistently timely daily earnings (unit value) and timely and accurate reports with the required information. (5 points)

M.6. COST/PRICE EVALUATION

a. The Board will analyze all technically acceptable proposals to determine the price of each proposal. The Board anticipates assigning 15 points to the price proposal evaluation.

b. The Board will determine the proposal with the lowest management fees at each asset level and assign lower point scores to those proposals with higher management fees at each level. For every basis point above the lowest management fees at each asset level, the corresponding score is reduced one point (incremental increases of less than one basis point reduce the score proportionately, e.g., a .5 basis point increase in fees results in a .5 point reduction in score) in accordance with the following schedule:

Management Fees On:	Point Allocation
First $3 billion	9 points
Above $3 billion	6 points

M.7. AWARD

a. While the total score will be an important factor in contract award selection, the Board will award any contract resulting from this solicitation to that Offeror presenting the most advantageous offer to the Board, all factors considered.

b. The Board may reject any or all offers, accept other than the offer proposing the lowest management fees, and waive informalities and minor irregularities in offers received.

c. The Board may award a contract on the basis of initial offers received, without discussions. Therefore, each initial offer should contain the Offeror's best terms from a price and technical standpoint.

M.8. TIME OF AWARD

The Board expects to make an award by June 1999, to allow the selected Offeror to participate in the system tests for the new Thrift Savings Plan (TSP) record keeping system which are scheduled to be conducted from September through November, 1999.

NOTHING FOLLOWS