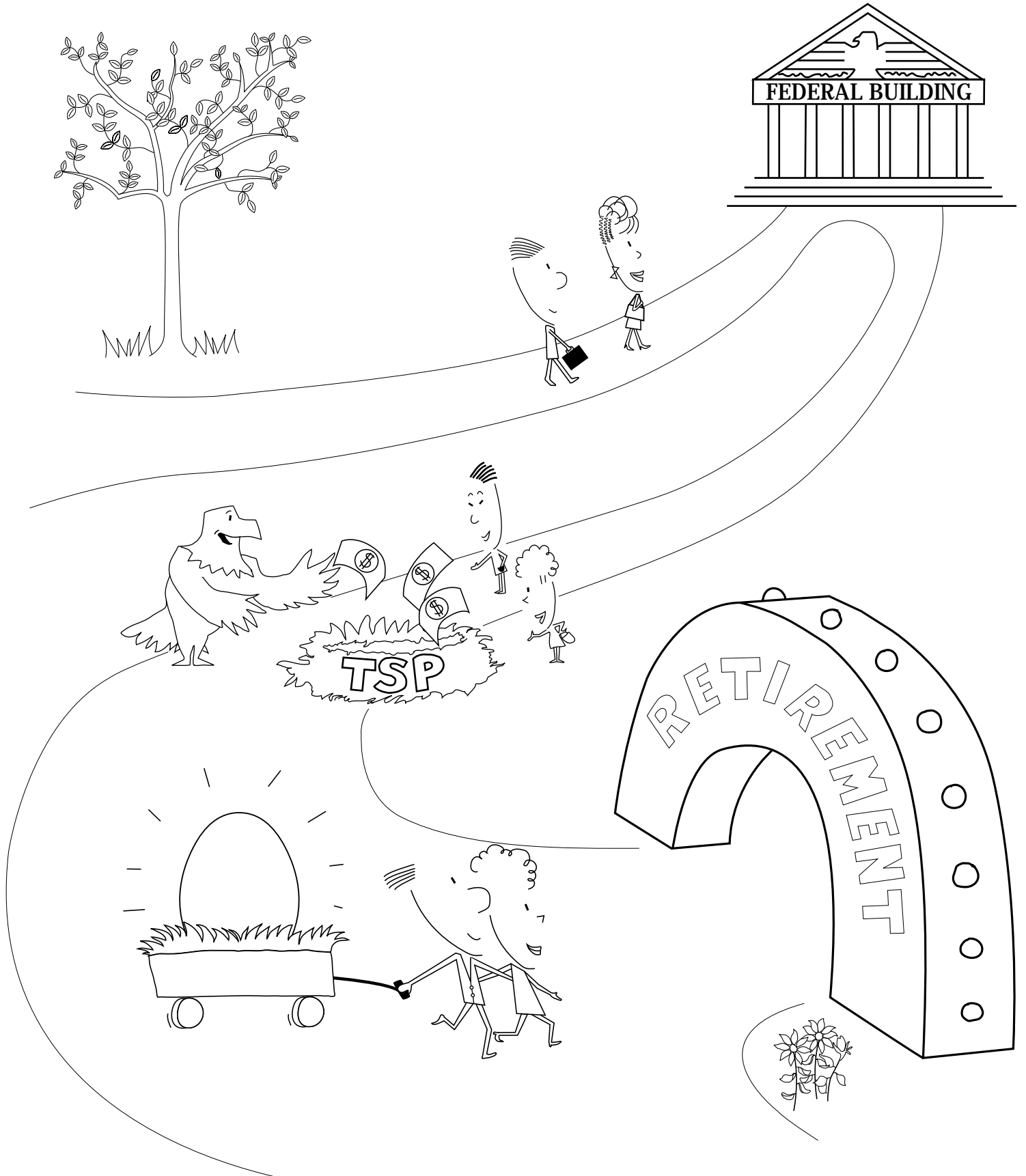


Summary of the Thrift Savings Plan for Federal Employees





August 1996

Dear Federal Employee,

You have probably read some of the many recent articles about the retirement prospects for upcoming generations. Often, these articles present an upsetting picture of a decreasing standard of living due to a changing economy and insufficient planning by individuals for their retirement. Many people are having to consider retiring at an older age or on less income than they had intended.

But this picture doesn't have to describe *your* future. As a Federal employee — whether covered by the Federal Employees' Retirement System (FERS) or the Civil Service Retirement System (CSRS) — you have an opportunity to enhance your retirement years by participating in the Thrift Savings Plan (TSP). You may be thinking, "I just can't spare the money right now" or "I'm too young to worry about retirement." However, before you dismiss this opportunity, you should know that saving even a few dollars from each paycheck will make a difference, and that the younger you are when you start, the bigger your TSP account can grow.

There are several good reasons to participate in the TSP and to start now:

- The sooner you start contributing, the sooner your money can go to work for you. Your account will grow from the earnings on your contributions, and those earnings, in turn, accrue more earnings. This is known as *compounding*, and the longer your money is in your account, the more you can benefit from it. So start young. Start now.
- FERS employees receive Agency Matching Contributions. When you put your own money in, your agency also puts money in for you. But if you don't contribute your own money, you miss out — *every paycheck* — on agency matching money.
- TSP savings are *tax-deferred*. That means you reduce your current taxable income and you don't pay Federal (and, in most cases, state) income taxes on the money in your account until later — most likely when you withdraw your money at retirement and are in a lower tax bracket.

The details of the TSP are contained in this updated booklet which describes how the plan works, what your investment choices are, how to enroll, and the withdrawal options that are available to all participants. I hope you will read the entire Plan Summary so that your choice about whether to participate will be an informed one. That way you will not be in the position years from now of realizing that you missed out on tax benefits, earnings, and substantial Agency Matching Contributions that might have been yours.

Since its inception in 1987, the TSP has grown to approximately \$40 billion in participants' accounts and grows by about \$100 million each week. More than 2 million Federal employees benefit from the Plan. If you have not yet done so, we hope you will join the 80 percent of FERS and 51 percent of CSRS employees who are already contributing to their TSP accounts.

Sincerely,

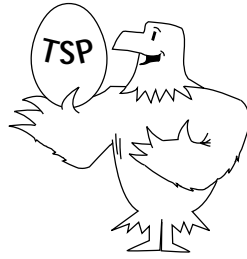
Roger W. Mehle
Executive Director

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THE THRIFT SAVINGS PLAN



What is the Thrift Savings Plan?

The Thrift Savings Plan (TSP) is a retirement savings and investment plan for Federal employees. Congress established the TSP in the Federal Employees' Retirement System Act of 1986. The purpose of the TSP is to provide retirement income. It offers Federal civilian employees the same type of savings and tax benefits that many private corporations offer their employees under so-called "401(k)" plans. The *Internal Revenue Code*, in 26 U.S.C. § 7701(j), states that the TSP is to be treated as a trust qualified under 26 U.S.C. § 401(a) and is exempt from taxation under 26 U.S.C. § 501(a).

Employees covered by the Federal Employees' Retirement System (FERS) and the Civil Service Retirement System (CSRS) can contribute to the TSP.¹ The participation rules are different for FERS and CSRS employees.

The TSP is a **defined contribution** plan. The retirement income that you receive from your TSP account will depend on how much you (and your agency, if you are a FERS employee) have contributed to your account during your working years and the earnings on these contributions. The contributions that you make to your TSP account are voluntary and are separate from your contributions to your FERS Basic Annuity or CSRS annuity.

How does the TSP differ from the FERS Basic Annuity and the CSRS annuity?

In contrast to the TSP, the FERS Basic Annuity and the CSRS annuity are **defined benefit** programs. This means that the benefits you receive from your FERS or CSRS annuity are based on

1. FERS refers to the Federal Employees' Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans. CSRS refers to the Civil Service Retirement System, including CSRS Offset, the Foreign Service Retirement and Disability System, and other equivalent Government retirement plans.

your years of service and your salary, rather than on the amount of your contributions and earnings. Most contributions to these annuity programs are made by your agency on your behalf. Your contributions are mandatory and the amount you contribute is defined by law. Your contributions are made by payroll deductions that your agency takes automatically from your paycheck. The FERS Basic Annuity and the CSRS annuity are administered by the Office of Personnel Management.

Your TSP benefits are in addition to your FERS or CSRS annuity. If you are a FERS employee, the TSP is an integral part of your retirement package, along with your FERS Basic Annuity and Social Security. If you are a CSRS employee, the TSP is a supplement to your CSRS annuity.

Who administers the TSP?

The Federal Retirement Thrift Investment Board administers the TSP and contracts with a separate organization to serve as the TSP recordkeeper. Your employing agency also plays an important role.

The Board. The Federal Retirement Thrift Investment Board is an independent Government agency. The five members of the Board and the Executive Director are required by law to manage the TSP prudently and solely in the interest of participants and their beneficiaries.

Investments in the TSP and earnings on those investments cannot be used for any purpose other than providing benefits to participants and their beneficiaries and paying TSP administrative expenses. TSP regulations are published in title 5 of the *Code of Federal Regulations*, Parts 1600 – 1699, and are periodically supplemented and amended in the *Federal Register*.

The financial statements of the Thrift Savings Fund are required by law to be audited annually. The audited financial statements are sent to all TSP participants with their May Participant Statements. (The Plan year is the calendar year.) You may also obtain a copy of the financial statements from your agency personnel office or by writing to the Board.

The Recordkeeper. The Board has an agreement with the U.S. Department of Agriculture’s National Finance Center (NFC) in New Orleans, Louisiana to provide recordkeeping services for the TSP. NFC maintains the accounts of TSP participants.

The TSP Service Office at NFC processes withdrawals, loans, and interfund transfers, as well as participants’ designations of beneficiaries. The TSP Service Office is also your primary contact for information about your account after you separate from Federal service. (See page 37 for the address of the TSP Service Office.)

Your Agency. Your agency is responsible for determining your retirement coverage and reporting to the recordkeeper each pay period the contributions made to your account. Your agency also distributes TSP materials and answers your questions about the TSP.

You should review the earnings and leave statements that you receive from your agency and your TSP Participant Statements (see page 11) to ensure that your agency provides NFC with correct and up-to-date information about you and your contributions. As long as you are employed by the Federal Government, your agency must also provide the recordkeeper with the personal information that is necessary to maintain your account (for example, your address). If you have questions about your TSP account or your address is incorrect, contact your personnel office.

What are the major features of the TSP?

FERS Participants — You can contribute up to 10 percent of your basic pay each pay period to your TSP account. You receive the following important benefits:

- Agency Automatic (1%) Contributions (see page 10)
- Agency Matching Contributions (see page 10)
- Immediate vesting in Agency Matching Contributions and vesting generally in three years in Agency Automatic (1%) Contributions (see page 10)

CSRS Participants — You can contribute up to 5 percent of your basic pay each pay period to your TSP account. You do not receive any agency contributions.

All Participants — The TSP offers the following features:

- Before-tax savings and tax-deferred investment earnings (see page 9)
- Low administrative and investment expenses (see page 12)
- A choice of investments in three funds (see page 17):
 - Government Securities Investment (G) Fund
 - Common Stock Index Investment (C) Fund
 - Fixed Income Index Investment (F) Fund
- Interfund transfers (see page 24)
- Loans from your own contributions and earnings for certain limited purposes while you are in Federal service (see page 26)
- Portable benefits if you leave Federal service (see page 28)
- A choice of withdrawal options — but no withdrawals can be made until you have separated from Federal service (see pages 4 and 28)
- Spouses’ rights protection for loans and withdrawals (see page 34)
- An automated telephone service (the TSP ThriftLine) for up-to-date account information and other services (see page 36)

How does the TSP work for FERS employees?

The TSP is one of the three parts of your retirement package, along with your FERS Basic Annuity and Social Security. Participating in the TSP does not affect the amount of your Social Security benefit or your FERS Basic Annuity.

The money that you save and earn through your TSP account will provide an important source of retirement income. The TSP is especially important to FERS employees because the formula used to compute your FERS Basic Annuity is less gener-

ous than the formula used to compute the CSRS annuity.

As a FERS employee, you receive Agency Automatic (1%) Contributions whether or not you contribute to your account. If you contribute to your account, you also receive Agency Matching Contributions. These matching contributions are a principal benefit of the TSP.

Federal income taxes on all contributions to your account are deferred. To learn more about this important feature, see "Tax Advantages of the TSP" on page 9.

Your TSP benefits can significantly increase your retirement income, but starting early is important. If you start to contribute to your TSP account early in your career, you will not miss out on Agency Matching Contributions, which you only receive when you contribute your own money. In addition, your earnings on all amounts in your account will compound over a longer period of time. To learn how your account could grow, see "Projecting Your Account Balance," pages 13 – 16.

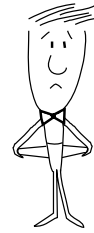
To find out more about your FERS Basic Annuity and how the TSP fits into your total retirement plan, contact your personnel office. For more information about your Social Security benefits, contact your personnel office or the Social Security Administration.

How does the TSP work for CSRS employees?

If you are a CSRS employee, you can take advantage of the TSP to provide a source of retirement income in addition to your CSRS annuity. Although you do not receive any agency contributions, you do have the benefit of deferring taxes on your contributions and on the earnings in your TSP account.

To learn more about the tax advantages of the TSP, see "Tax Advantages of the TSP" on page 9. To see how your account could grow, see "Projecting Your Account Balance," pages 13 – 16. To find out more about your CSRS annuity, contact your personnel office.

What if I can't afford to contribute very much?

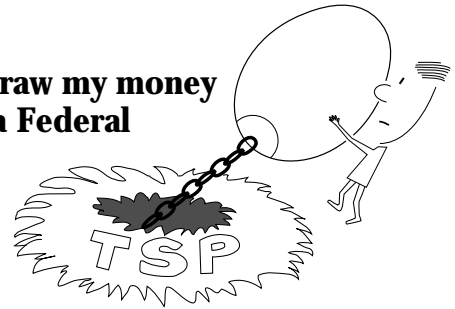


You can contribute as little as one dollar per pay period. Even small savings add up over time. If you are a FERS employee and put in only \$10 per bi-weekly pay period, here's what you could add to your TSP account in 25 years. This is in addition to your Agency Automatic (1%) Contributions, which you get whether you contribute or not.

Your \$10 biweekly contributions	\$6,500
Your agency's matching contributions*	6,500
Earnings (assuming 7% a year)	22,100
Your total	\$35,100

* This example assumes that \$10 is no more than 3 percent of your basic pay each pay period, so it is matched dollar for dollar. See "What are the basic rules for contributing to the TSP?" on page 5.

Can I withdraw my money while I am a Federal employee?



No, you cannot withdraw any portion of your TSP account until you have separated from Federal service. If you think you may need your money in the near future, or if you do not have other funds saved for emergencies, you will want to consider your other needs carefully when deciding how much to contribute to the TSP.

The purpose of the TSP is to provide you with a source of income for your retirement. It is not a savings account that can be withdrawn at any time. While you are still employed by the Federal Government, the TSP loan program can give you access to money that you have contributed to your account. However, you can borrow from your account only for certain limited purposes, and documentation is required (see page 26).



PARTICIPATING IN THE TSP

Who is eligible to participate in the TSP?

Both FERS and CSRS employees can participate in the TSP.² FERS employees are generally those hired on or after January 1, 1984. CSRS employees are generally those hired before that date who did not convert to FERS.

If you are a FERS or CSRS employee, you can participate in the TSP, regardless of whether you work full time or part time. If you do not know your retirement coverage, or if you do not know whether you are eligible to participate, contact your agency personnel office. Your agency must determine your retirement coverage. Neither the Board nor the TSP recordkeeper has the authority to make retirement coverage determinations.

What are the basic rules for contributing to the TSP?

If you are a FERS employee:

- Your agency contributes an amount equal to 1 percent of your basic pay each pay period as soon as you become eligible to participate in the TSP. These are your Agency Automatic (1%)

2. Other persons can also participate in the TSP, for example:
- Individuals on approved leave without pay to serve as full-time officers or employees of certain unions or other employee organizations
 - Individuals assigned from a Federal agency to a state or local government under an Intergovernmental Personnel Act assignment who choose to retain FERS or CSRS coverage
 - Individuals appointed or otherwise assigned to one of the Cooperative Extension Services, as defined by the National Agricultural Research, Extension, and Teaching Policy Act of 1977
 - Federal justices and judges, certain Federal bankruptcy judges and magistrate judges, Claims Court judges, and Court of Veterans Appeals judges
 - Nonappropriated Fund employees of the Defense Department or the U.S. Coast Guard who have chosen to be covered by FERS or CSRS

Members of these groups generally can participate under the rules for either FERS or CSRS employees.

Contributions. You receive these contributions whether or not you contribute to your TSP account.

- You can contribute up to 10 percent of your basic pay each pay period to the TSP, as long as your annual total does not exceed Internal Revenue Service (IRS) limits (see page 35).
- If you contribute your own money, you receive Agency Matching Contributions on up to 5 percent of basic pay that you contribute each pay period — dollar for dollar on the first 3 percent of pay contributed, and 50 cents on the dollar for the next 2 percent.

If you are a CSRS employee:

- You can contribute up to 5 percent of your basic pay each pay period.
- You do not receive any Agency Automatic (1%) or Matching Contributions.

All FERS and CSRS employees:

- You can contribute either a percentage of your basic pay each pay period or a fixed dollar amount — even as little as a dollar each pay period. If you make your contributions as a percentage of your pay, the amount of your contributions will automatically increase as you receive pay raises.
- You can make an election to start, change, or reallocate the investment of your TSP contributions during two TSP open seasons held each year (November – January and May – July). The last month of each open season (January or July) is called the election period. You can submit your Election Form (TSP-1) to your agency at any time during an open season, but your contributions will not begin before the first full pay period that falls within the election period.
- All contributions must be made through payroll deductions. Lump sum contributions from a source other than payroll deductions (for example, from your personal savings) are not permitted. You cannot transfer money into your TSP account from an Individual Retirement Arrangement (IRA) or from another retirement plan.

- You must be in pay status (that is, receiving pay) to make contributions and to receive agency contributions for a pay period. Therefore, if you are not in pay status, your contributions (and your agency contributions, if you are a FERS employee) will stop until you are receiving pay once again.

Basic pay for TSP purposes is defined by law. The definition does not include such things as awards or many forms of premium pay. Contact your personnel office if you have questions about your basic pay for TSP purposes.

Note: As a result of Public Law 103-353, the Uniformed Services Employment and Reemployment Rights Act (USERRA), certain employees may make up contributions missed due to military service. See your agency for more information about this opportunity.

When can I sign up for the TSP?

Eligible employees can sign up to contribute to the TSP only during the two open seasons held each year: May 15 – July 31 and November 15 – January 31. Elections, however, cannot be made effective before the last month of the open season. You can make only one election each open season.

If you are a newly hired FERS employee, you must wait a certain period of time before you become eligible to participate in the TSP. You can elect to contribute to the TSP during the second open season after you were hired as a FERS employee. (Note: If you are hired during an open season but before the last month of the open season, that open season is considered the first one.) For example, if you were hired during the period from January 1 through June 30, 1996, you are eligible to sign up to contribute to the TSP during the November 1996 – January 1997 open season. Your agency must start the Agency Automatic (1%) Contributions the first full pay period of the last calendar month of the open season in which you first become eligible (in this example, January 1997).

Here's when newly hired employees become eligible:

If you were hired:	You can sign up to contribute:	Your Agency Automatic Contributions will begin:
January 1 – June 30	The next November 15 – January 31 open season	First full pay period in January of that open season
July 1 – December 31	The next May 15 – July 31 open season	First full pay period in July of that open season

What if I am a rehired employee?

If you are a rehired FERS or CSRS employee who had a **break in service of 31 or more full calendar days** and you were previously eligible to participate in the TSP, you can sign up to contribute to the TSP during the first open season after you are re-employed. For example, if the effective date of your rehire was during the period from July 1 through December 31, 1996, you are eligible to contribute to the TSP beginning in the first full pay period in January 1997. If you are a rehired FERS employee, your Agency Automatic (1%) Contributions will begin then also. However, if you were not previously eligible to participate in the TSP, you will not be eligible until the second open season after the date of rehire. (See the preceding table.)

If you are a rehired FERS or CSRS employee who had a **break in service of less than 31 full calendar days** and you were previously participating in the TSP, your contributions will resume upon rehire. You cannot change your contributions until the next open season.

If you are rehired as a CSRS employee and you **choose to change your retirement coverage to FERS**, your Agency Automatic (1%) Contributions will begin no later than the pay period following the effective date of your transfer to FERS. You may also make an election to contribute your own money within 30 days of the effective date of your transfer to FERS. If you do, your election will become effective no later than the beginning of the next pay period.

How do I start or change the amount of my contributions to my TSP account?



To start contributing to the TSP, ask your personnel office for the TSP Election Form (TSP-1). Complete the form to show whether you want to contribute a percentage of your basic pay or a fixed whole dollar amount each pay period. Also complete Form TSP-1 if you are already participating in the TSP and you want to change the amount of your TSP contributions.

Submit your completed Election Form to your personnel office during the open season. If you submit your form before the month of January or July, it will become effective in the first full pay period in January or July. If you submit your form during January or July, your choice will become effective no later than the first pay period that begins after the date that your personnel office accepts your form.

Your agency will deduct the amount you choose from your pay each pay period and will continue to do so until you submit another Form TSP-1 to stop or change the amount. You do not need to submit an Election Form each open season.

How do I make or change my investment choices for future contributions?

Submit Form TSP-1 during a TSP open season to allocate any portion of your future contributions among the three TSP funds. This includes your own payroll deductions and, if you are a FERS employee, all agency contributions to your account. Your investment choice will become effective according to the rules described above and will continue until you submit an Election Form in a subsequent open season. Your choice on Form TSP-1 to allocate your contributions among the three TSP investment funds will affect only your **future contributions** to your account, not money already in your account.

If you are a FERS employee, your investment choice on Form TSP-1 will apply to your own contributions and to your Agency Automatic (1%) and Matching Contributions. You cannot make separate investment choices for each type of contribution. If you do not contribute to your TSP account, you can still complete Form TSP-1 to choose how you want your Agency Automatic (1%) Contributions invested.

Before making an investment decision, consider carefully the advantages and risks of each of the three TSP funds. Read "Your Investment Options," beginning on page 17. It describes each of the funds in detail and provides a 10-year history of investment returns on corresponding securities. If you are already a participant, the TSP *Highlights* that accompanies your Participant Statement will provide up-to-date information on investment returns.

The TSP is not responsible for the investment results of your decision (including potential loss of principal in the C and F Funds). The law requires you to sign a statement that you understand and accept the risks of investing in the C and/or F Fund before you invest in either of these funds.

What if I do not submit an Election Form?

If you are a FERS participant who is not contributing your own money to your TSP account and you have not submitted Form TSP-1, your future Agency Automatic (1%) Contributions will be invested in the G Fund until you submit Form TSP-1 indicating an investment choice.

What if I transfer to another agency?

If you transfer to a new agency without a break in service of 31 or more full calendar days, your new agency must continue your contributions without interruption. To avoid any delay, you should notify your new personnel office that you are contributing to the TSP.

How do I stop contributing to the TSP?

You can stop contributing your own money to the TSP at any time by completing the appropriate sections on Form TSP-1. Your contributions will stop at the end of the pay period in which your agency accepts the form. If you stop contributing during an open season, you must wait until the next open season to start again. If you stop outside of an open season, you must wait until the second open season after you stop before you can contribute again.

If you are a FERS employee, your Agency Automatic (1%) Contributions will continue and will be invested as you indicate on Form TSP-1. All Agency Matching Contributions will end when your contributions end. During any open season while you are not contributing, you can submit Form TSP-1 to change the investment allocation of your future Agency Automatic (1%) Contributions.

How do I change the way my existing account balance is invested?

You can change the way **money already in your account** is invested in the three TSP funds by requesting an interfund transfer. The most efficient way to request an interfund transfer is to call the TSP ThriftLine. You can also submit an Interfund Transfer Request (Form TSP-30) to the TSP Service Office at the address on the form. See “Interfund Transfers,” page 24, and “What is the ThriftLine?” on page 36.

An interfund transfer does not affect the way your future contributions will be invested. You must submit Form TSP-1 to your personnel office during a TSP open season to change the allocation of your future contributions.

How do I designate beneficiaries for my TSP account?

To designate beneficiaries to receive your account in the event of your death, ask your personnel office for Form TSP-3, Designation of Beneficiary. If you have left Federal service, you can obtain the form from the TSP Service Office. If you do not file Form TSP-3 with the TSP recordkeeper to designate beneficiaries for your account, your account will be distributed after your death according to the standard order of precedence described on page 31.

Submit Form TSP-3 to the TSP Service Office at the address on the form. **Do not submit Form TSP-3 to your agency.** Your beneficiary designation will not be valid unless it is accepted by the TSP recordkeeper prior to your death. Follow the instructions on the form carefully. The TSP may not be able to honor an improperly completed form, so mistakes may make your form invalid. The TSP will notify you if your form cannot be processed.

Mention of your TSP account in your will has no effect on the disposition of your account after your death. However, you can use Form TSP-3 to designate your estate or a trust to receive your TSP account. A will is not a substitute for Form TSP-3.

It is a good idea to review your designation of beneficiary whenever your personal situation changes (for example, by marriage, birth or adoption of a child, or divorce). Your semiannual Participant Statement will show the date of your most recent designation. To cancel or change your designation of beneficiary, submit another Form TSP-3 to the TSP recordkeeper.

TAX ADVANTAGES OF THE TSP



What are before-tax contributions? How do they benefit me?

With before-tax contributions, the money you contribute is taken out of your pay before Federal and, in almost all cases, state income taxes are calculated. Thus, the amount used to calculate your taxes is smaller and you pay less in taxes now. By paying less current income tax, you have more take-home pay than if you had put aside an equal amount in savings after taxes.

You defer (that is, postpone) paying taxes on the money you contribute until you withdraw these funds from your TSP account — usually when you retire and your tax bracket may be lower. You can defer Federal income taxes in this way; whether you can also defer state or local income taxes depends on the jurisdiction in which you live.

Your TSP contributions are excluded from the taxable income reported on the Form W-2, Wage and Tax Statement, that you receive from your agency each year. Thus, you do not report them on your annual tax return. This special tax treatment does not affect your salary of record for other Federal benefits — such as the FERS Basic Annuity, the CSRS annuity, or life insurance — nor does it affect Social Security taxes or benefits.

Here is an example of the advantage of before-tax contributions to the TSP. Suppose that you earn \$28,000 each year (your basic pay) and you decide to contribute 5 percent each pay period (or \$1,400 a year) to your TSP account. Also suppose that you are married, have a dependent child, show three exemptions on your jointly filed Federal tax return, and claim the standard deduction. To keep this example simple, we will not consider any itemized deduction, Social Security tax, state or local income taxes, or other payroll deductions.

In this example, your annual take-home pay is \$203 more when you save through the TSP compared to saving through an after-tax method. The difference in your take-home pay will be even greater if the state in which you live permits tax-deferred savings, as most states do.

Before-Tax Savings Through the TSP

If you save \$1,400 on a **before-tax basis** through the TSP, here's how your take-home pay would look, based on a 1996 tax rate of 15%:

Yearly basic pay (<i>taxable income</i>)	\$ 28,000
Minus before-tax savings in the TSP	<u>– 1,400</u> (5% of \$28,000)
Net taxable income	\$ 26,600
Minus estimated Federal income tax	<u>– 1,841</u>
Net take-home pay	\$ 24,759

After-Tax Savings

To compare, here's what happens when you save outside the TSP, **without** the advantage of before-tax savings:

Yearly basic pay (<i>taxable income</i>)	\$ 28,000
Minus estimated Federal income tax	<u>– 2,044</u>
Net income after taxes	\$ 25,956
Minus savings (<i>no tax advantage</i>)	<u>– 1,400</u> (5% of \$28,000)
Net take-home pay	\$ 24,556

Comparison of Before- and After-Tax Savings

Your net take-home pay with **before-tax savings** in the TSP \$ 24,759

Compared to net take-home pay with **after-tax savings** outside the TSP – \$ 24,556

You take home this much more pay with tax-deferred savings in the TSP \$ 203

If you pay taxes at a higher rate than 15%, the advantage of before-tax contributions to the TSP will be even greater.

How do I benefit from tax-deferred earnings on my TSP account?

Year after year, the money in your account will accrue earnings. The earnings on the money in your TSP account are tax-deferred. This means that you do not pay Federal (and, in most cases, state) income taxes on your TSP account earnings until you receive the money — keeping more money invested and working for you. The longer your money is invested, the greater will be the benefit of tax-deferred earnings.

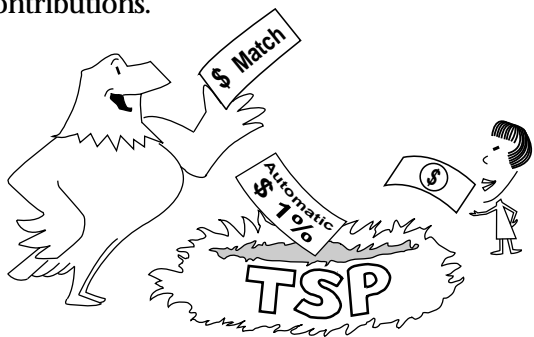
UNDERSTANDING AGENCY CONTRIBUTIONS

Who is entitled to receive agency contributions?

Only FERS employees are entitled to receive agency contributions. If you are a FERS employee, your agency makes two different types of contributions to your TSP account as part of your FERS benefits. These contributions are not taken out of your pay, nor do they increase your pay for income tax or Social Security purposes.

First, when you become eligible to participate in the TSP, your agency will open a TSP account for you. Each pay period, your agency will automatically contribute to your account an amount equal to 1 percent of your basic pay for that pay period. These are your **Agency Automatic (1%) Contributions**. You will receive these contributions whether or not you contribute your own money to your TSP account.

Second, when you contribute to your TSP account, your agency makes **Agency Matching Contributions**. If you do not contribute your own money, you will not receive Agency Matching Contributions. Matching Contributions apply to the first 5 percent of pay each pay period that you contribute. Your contributions are matched dollar for dollar for the first 3 percent of pay you contribute each pay period and 50 cents on the dollar for the next 2 percent of pay. Although you may contribute up to 10 percent of your pay each pay period, your agency will not match the contributions that you make above 5 percent of your pay each pay period. However, you will still benefit from before-tax savings and tax-deferred earnings on these contributions.



The fact that your agency adds to your contributions will make your TSP account grow faster. Your Agency Automatic (1%) and Matching Contributions can add up to 5 percent of your basic pay. Here's how:

Percent of Basic Pay Contributed to Your Account (FERS Employees Only)

You put in:	Your agency puts in:		And the total contribution is:
	Automatic (1%) Contribution	Agency Matching Contribution	
0%	1%	0%	1%
1%	1%	1%	3%
2%	1%	2%	5%
3%	1%	3%	7%
4%	1%	3.5%	8.5%
5%	1%	4%	10%
6% – 10%	1%	4%	11% – 15%

What does vesting mean?

Vesting means that you have met the service requirements that entitle you to Agency Automatic (1%) Contributions and their earnings when you leave Federal service. Service requirements for vesting do not apply to any other type of contributions. Therefore:

- FERS and CSRS participants are **always** vested in their own contributions and the earnings on their contributions.
- FERS participants are **always** vested in the matching contributions their agencies make, as well as the earnings on the matching contributions.

Most FERS employees become vested in their Agency Automatic (1%) Contributions after completing three years of Federal civilian service. FERS employees in congressional and certain noncareer positions become vested in their Agency Automatic (1%) Contributions after completing two years of civilian service.

All Federal civilian service counts toward vesting in your TSP account — not just your service while you are a TSP participant. Service covered by USERRA also counts for vesting (see page 6). If you are a FERS participant, your agency reports your TSP Service Computation Date (TSP-SCD), which is used by the TSP recordkeeper to deter-

mine if you are vested. Your TSP-SCD is shown on your Participant Statement; if you believe it is incorrect, or if you have questions about it, contact your personnel office. (Your TSP-SCD will never be earlier than January 1, 1984.)

If you leave Government service before satisfying the vesting requirement for your Agency Automatic (1%) Contributions, these contributions and the earnings on them will be forfeited to the TSP.

If you die before separating from service, all amounts in your TSP account will be vested automatically.

UNDERSTANDING YOUR TSP ACCOUNT

How will I get information about my account?

In late May and late November, the TSP recordkeeper will mail you a Participant Statement with information on your TSP account balance and a detailed summary of the activity in your account during the previous six-month period. At any time during the year you may call the TSP ThriftLine to learn your most recent account balance (see page 36). If you are a new participant, your Personal Identification Number (PIN) for the ThriftLine will be reported to you in an introductory letter that the TSP will send you after your agency begins submitting contributions to your account.

While you are employed — The earnings and leave statements that you receive from your agency show the money that you contribute to your TSP account for the pay period and may also show agency contributions. You should review your earnings and leave statements and your TSP Participant Statement carefully to make certain that the proper amounts are being contributed to your TSP account.

In addition, you should check:

- Your Social Security number and date of birth, which identify your account
- Your address, to which your Participant Statement and other information are mailed
- Your retirement coverage (e.g., FERS, CSRS)
- Your TSP Service Computation Date and vesting code, which affect vesting in Agency Automatic (1%) Contributions (FERS only)
- The date of your beneficiary designation

Your agency provides the TSP recordkeeper with the information that is reported on your Participant Statement about you and your contributions (except the date of your beneficiary designation). Report any change in your address to your personnel office. If there is a mistake in any of the personal information on your statement (or in your introductory letter, if you are a new participant), you should contact your personnel office and ask that the mistake be corrected. While you are employed by the Federal Government, only your agency can change the personal information needed to maintain your account. **Neither the Board nor the TSP recordkeeper can initiate changes to your personal information record while you are still in Federal service.**

After you leave Federal service — You will continue to receive semiannual Participant Statements and other mailings until you withdraw your entire TSP account balance. After you leave Federal service, the TSP Service Office is your primary contact for information about your account, including procedures to withdraw it. The address and phone number of the TSP Service Office are provided on the Participant Statements of separated employees. Keep the TSP Service Office informed of all changes in your address.



Make sure to keep your address correct for your TSP account. Otherwise, you may not receive your Participant Statement or other important mailings.

- **Currently employed participants:** Contact your agency personnel office to change your address.
- **Separated or retired participants:** Submit Form TSP-9, Change of Address for Separated Participants, to the TSP Service Office, or write to the TSP Service Office. Your signed and dated letter must include your Social Security number and date of birth.



What if there is a mistake in the contributions to my account?

If there is a mistake in the contributions to your account — including the allocation of your contributions among the investment funds — your agency must initiate the necessary corrections, whether you are currently employed or are separated from service.

If your agency makes errors, you may also be entitled to earnings lost to your account as a result. Your agency must determine your entitlement to any lost earnings and must initiate payment of them. (However, your agency may not pay lost earnings on contributions of your own money that it may have failed to deduct from your pay.) Report any errors in your TSP account to your agency personnel office promptly.

If there is a mistake in your retirement coverage classification (that is, FERS or CSRS), you may not have received money to which you are entitled, or you may have received contributions that do not belong to you. If you believe your retirement coverage is incorrect, contact your personnel office immediately.

All error corrections (and payment of lost earnings) will be reported on your semiannual Participant Statement.

Do I pay administrative expenses to cover TSP operating costs?

Yes. Major expenses of the TSP include the operating and development costs of the recordkeeper's computer system, the TSP Service Office, and the printing and mailing of publications and Participant Statements.

Two sources of funds are used to cover the expenses of the TSP. The first source is forfeitures of any nonvested Agency Automatic (1%) Contributions. FERS employees who leave Federal service before they are vested in the TSP (see page 10)

forfeit the Agency Automatic (1%) Contributions and earnings on those contributions.

The second source of funds is earnings on participant and agency contributions. Because forfeitures are not sufficient to pay all expenses, a portion of earnings is used to pay the balance of accrued administrative expenses. Accrued administrative expenses, after forfeitures, are deducted from the earnings of the G, C, and F Funds in proportion to the size of those funds. Investment management fees of the C and F Funds are borne exclusively by the participants investing in those funds. (See page 13, "How are earnings allocated to my account?") Information on TSP expenses is provided in the annual audited financial statements sent to all participants with their May Participant Statements.

The effect of administrative expenses (after forfeitures) on the rates of return of the three funds is measured by the expense ratio of each investment fund. The monthly expense ratio is the total of monthly administrative expenses charged to each fund divided by the average fund balance during that month.

Your share of TSP net administrative expenses is based on the size of your account balance. For example, the G Fund expense ratio was .09 percent in 1995. This means that in 1995 your earnings in the G Fund were reduced approximately \$0.90 for every \$1,000 of your G Fund account balance. The expense ratios for the three funds since 1988 are as follows:

Year	G Fund	C Fund	F Fund
1988	.34%	.29%	.30%
1989	.21%	.20%	.23%
1990	.11%	.13%	.13%
1991	.13%	.15%	.16%
1992	.13%	.14%	.15%
1993	.12%	.13%	.14%
1994	.10%	.11%	.12%
1995	.09%	.10%	.11%

How are earnings allocated to my account?

Earnings are allocated to your account once a month. Monthly earnings for each investment fund are calculated on your month-end balance as of the end of the prior month plus one-half of the total contributions and loan repayments credited to your account in the current month. This method treats all contributions equally in the allocation of earnings, no matter when they were processed during the month.

The G, C, and F Fund monthly earnings are reduced by each fund's proportionate share of net administrative expenses. C and F Fund earnings are also reduced by investment management fees. Each fund's net earnings are then allocated to participants' accounts in proportion to the amount they have invested in each fund. As a result, the actual return on investments to participants will generally be less than the total rates of return for the securities in which the various funds are invested.

Both sets of returns (i.e., before and after expenses) are reported on a monthly basis in the TSP Fact Sheet, "C, F, and G Fund Monthly Returns," which is available from your personnel office. For more information on how your earnings are calculated, ask your personnel office for a copy of the TSP Fact Sheet, "Calculating Participant Earnings on TSP Investments."

PROJECTING YOUR ACCOUNT BALANCE

The size of your account balance depends on how much you (and your agency, if you are a FERS employee) contribute to your account and how your account grows as a result of earnings on your investments. To get an idea of what your TSP account could be in the future, look at the following projections.

Assume that you are a newly eligible FERS employee earning \$28,000 each year and that you receive no future salary increases. You choose to save 5 percent of basic pay each pay period, so you receive total agency contributions of 5 percent. The growth projections below are for three sample annual rates of return on your investments — 4 percent, 7 percent, and 10 percent.

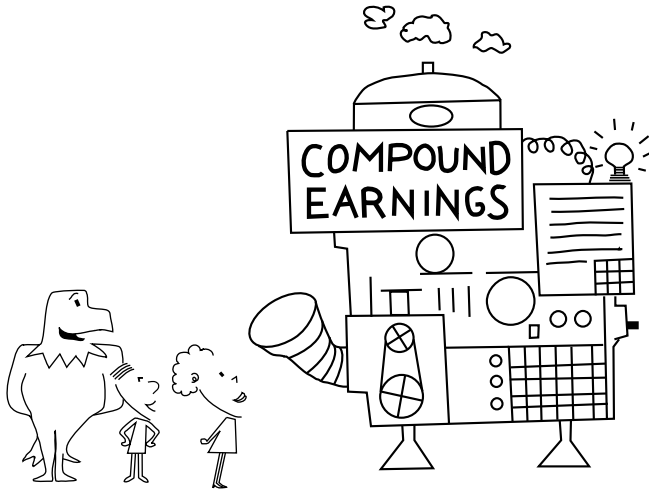
Projected Account Balance of a FERS Employee Who Contributes 5% of \$28,000 Annual Basic Pay

Account Balance After:	Account Balance at Assumed Annual Rates of Return (Compounded Monthly)		
	4%	7%	10%
5 Years	\$15,400	\$16,800	\$18,200
10 Years	34,440	40,320	47,880
15 Years	57,400	74,200	96,880
20 Years	85,680	121,800	177,520
25 Years	120,120	189,280	310,240
30 Years	162,120	285,040	528,640
35 Years	213,360	420,840	887,880
40 Years	276,080	613,480	1,478,960

You should be aware that future inflation may erode the purchasing power of your projected account balance and taxes must be paid when you receive the money. However, higher rates of inflation are often accompanied by higher pay increases and higher rates of investment return. The growth projections in these discussions do not represent predictions or estimates of inflation or TSP investment results. See pages 17 – 24 for a discussion of TSP investment options, their advantages, risks, and historical results.

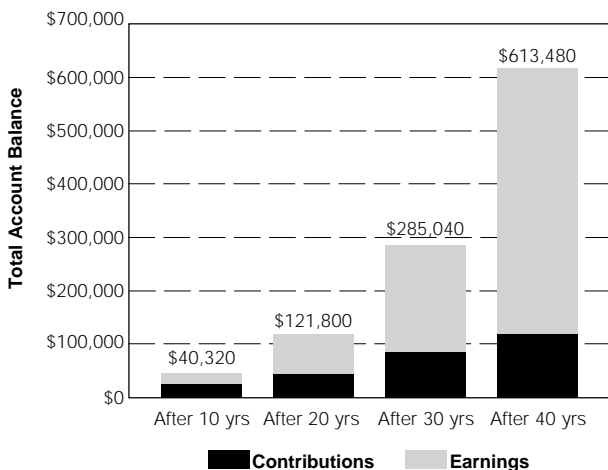
Does it make a difference when I start contributing?

Yes. It is important to invest in your TSP account early in your career. The longer contributions stay in your account, the more you stand to gain. Your money makes money in the form of earnings, and those earnings in turn make money, and so on. This is what is known as the “miracle of compounding.” As money grows in your account over time, the greater will be the proportion due to earnings, compared to contributions.



In the example below, earnings are about 30 percent of a FERS employee’s account after 10 years (assuming a salary of \$28,000, employee contributions of 5 percent of basic pay, agency contributions of 5 percent, and a 7 percent rate of return). However, at 40 years, earnings account for 80 percent of this employee’s TSP account.

Proportion of TSP Account Attributable to Earnings



How can I estimate my TSP account balance?

The amount of your future TSP account depends on how much is in your account now and how much you contribute from this point on.

If you are a new participant, use Table A on page 15 to estimate what your TSP account would accumulate. (You can assume various levels of contribution and rates of return.) If you already have a TSP account, you can also use Table B to project how much the money that is in your account now will grow, based upon various rates of return. The worksheet on page 16 will help you with the calculations.

Using Table A — Select the section of the table that shows the rate of return that you want to use in your estimate — 4%, 7%, or 10% each year. Choose the percentage of your pay that you want to contribute to your TSP account each pay period and the number of years during which you will contribute. Find the figure in the column and row that correspond to your choices. Multiply your current annual basic pay by this figure. The result will be what you could expect future contributions and earnings in your TSP account to be at the end of your chosen period, if:

- you are a FERS employee,
- you receive no additional salary increases, and
- your contributions and your agency’s contributions accrue earnings at the annual rate (compounded monthly) specified at the top of the section of the table you used.

If you are a CSRS employee, see the footnotes to the table to determine which column(s) to use.

Using Table B — Table B helps you project the growth of money already in your account. Table A does not take into account this growth; it only shows what future contributions will amount to. To see how much your current account balance will grow, find the column for the number of years you plan to keep your money in your account and select the factor for the rate of return you want to estimate — 4%, 7%, or 10%. Multiply that factor by your existing account balance.

Add the result to your estimate of account growth from future contributions from Table A.

**Table A. Factors to Estimate Growth of Future Contributions and Earnings
(When Multiplied by Annual Salary)**

If Investment Income Is Earned at 4% Annual Rate of Return (Compounded Monthly)

If You Contribute One of These Percentages

Years You Contribute	0%*	1%**	2%***	3%	4%	5%	6%	7%	8%	9%	10%
5	0.06	0.17	0.28	0.39	0.47	0.55	0.61	0.66	0.72	0.77	0.83
10	0.12	0.37	0.61	0.86	1.04	1.23	1.35	1.47	1.60	1.72	1.84
15	0.21	0.62	1.03	1.44	1.74	2.05	2.26	2.46	2.67	2.87	3.08
20	0.31	0.92	1.53	2.14	2.60	3.06	3.37	3.67	3.98	4.28	4.59
25	0.43	1.29	2.14	3.00	3.65	4.29	4.72	5.15	5.57	6.00	6.43
30	0.58	1.74	2.89	4.05	4.92	5.79	6.37	6.95	7.53	8.10	8.68
35	0.76	2.29	3.81	5.33	6.48	7.62	8.38	9.15	9.91	10.67	11.43
40	0.99	2.96	4.93	6.90	8.38	9.86	10.84	11.83	12.82	13.80	14.79

If Investment Income Is Earned at 7% Annual Rate of Return (Compounded Monthly)

If You Contribute One of These Percentages

Years You Contribute	0%*	1%**	2%***	3%	4%	5%	6%	7%	8%	9%	10%
5	0.06	0.18	0.30	0.42	0.51	0.60	0.66	0.72	0.78	0.84	0.90
10	0.14	0.43	0.72	1.01	1.23	1.44	1.59	1.73	1.88	2.02	2.17
15	0.26	0.79	1.32	1.85	2.25	2.65	2.91	3.17	3.44	3.70	3.97
20	0.43	1.30	2.17	3.04	3.70	4.35	4.78	5.22	5.65	6.09	6.52
25	0.68	2.03	3.38	4.73	5.75	6.76	7.44	8.11	8.79	9.47	10.14
30	1.02	3.05	5.09	7.13	8.66	10.18	11.20	12.22	13.24	14.26	15.27
35	1.50	4.51	7.52	10.52	12.78	15.03	16.54	18.04	19.54	21.05	22.55
40	2.19	6.57	10.95	15.34	18.62	21.91	24.10	26.29	28.48	30.67	32.86

If Investment Income Is Earned at 10% Annual Rate of Return (Compounded Monthly)

If You Contribute One of These Percentages

Years You Contribute	0%*	1%**	2%***	3%	4%	5%	6%	7%	8%	9%	10%
5	0.06	0.19	0.32	0.45	0.55	0.65	0.71	0.78	0.84	0.91	0.97
10	0.17	0.51	0.86	1.20	1.45	1.71	1.88	2.05	2.22	2.40	2.57
15	0.35	1.04	1.73	2.42	2.94	3.46	3.81	4.15	4.50	4.85	5.19
20	0.63	1.90	3.17	4.44	5.39	6.34	6.98	7.61	8.24	8.88	9.51
25	1.11	3.32	5.54	7.76	9.42	11.08	12.19	13.30	14.41	15.51	16.62
30	1.89	5.66	9.44	13.22	16.05	18.88	20.77	22.66	24.54	26.43	28.32
35	3.17	9.51	15.85	22.20	26.95	31.71	34.88	38.05	41.22	44.39	47.56
40	5.28	15.85	26.41	36.97	44.90	52.82	58.10	63.38	68.66	73.95	79.23

*or CSRS employee contributing 1%

**or CSRS employee contributing 3%

***or CSRS employee contributing 5%

Note: These factors are based on biweekly payroll contributions. Figures are rounded to two decimal places.

Table B. Factors to Estimate Growth of Existing Account Balance

Annual Rate of Return (Compounded Monthly)	Years Until You Withdraw Your Account							
	5	10	15	20	25	30	35	40
4%	1.22	1.49	1.82	2.22	2.71	3.31	4.05	4.94
7%	1.42	2.01	2.85	4.04	5.73	8.12	11.51	16.31
10%	1.65	2.71	4.45	7.33	12.06	19.84	32.64	53.70

Worksheet

Here's how the tables work. We have filled in examples from Tables A and B. Use the blank columns to fill in your own set of figures. Then, combine the results in the bottom part of the worksheet.

Using Table A: Growth of Future Contributions and Earnings		Using Table B: Growth of Your Existing Account Balance	
Let's assume you choose to save 5% of your annual basic pay of \$28,000, or \$1,400.	Percentage you wish to save from your annual basic pay = _____%	Next, let's assume you already have \$20,000 in your TSP account.	Amount you already have in your TSP account = \$ _____
You want to know how much your account balance can be after 30 years of contributions.	Choose a projected period of _____ years (divisible by 5) during which you plan to contribute.	You want to know how much the money already in your account could amount to after 30 years.	Choose the same period of years that you used in projecting growth of your contributions with Table A: _____ years
We'll assume an annual investment income of 7% on your savings.	Annual investment income you wish to assume (check one): <input type="checkbox"/> 4% <input type="checkbox"/> 7% <input type="checkbox"/> 10%	We'll use the same assumed annual investment income of 7% on your savings as used in Table A.	Annual investment income you assumed with Table A (check one): <input type="checkbox"/> 4% <input type="checkbox"/> 7% <input type="checkbox"/> 10%
Go to the second section of Table A (7% investment income), find the column for the 5% contribution rate, then locate the figure in the column for the 30-year contribution period. The figure is 10.18.	Find the appropriate investment income section of Table A. Figure from Table A for your chosen contribution percent and number of contribution years = _____	Go to Table B and find the row for 7% annual rate of return, then locate the figure in the column for the 30-year period. The figure is 8.12.	The figure from Table B for your assumed rate of return and number of years of account growth = _____
Now, do the following: \$28,000 (assumed annual basic pay) Times 10.18 (figure in table) The result is \$285,040.	Now, do the following: Your annual basic pay: \$ _____ Times figure in Table A X _____ Projected result: \$ _____ This is how much your future contributions and earnings will amount to. Stop here if you have never participated in the TSP.	Now, do the following: \$20,000 (already in your account) Times 8.12 (figure from table) The result is \$162,400.	Now do the following: Amount already in your account: \$ _____ Times figure in Table B X _____ Projected result: \$ _____ This is how much the money already in your account will amount to.

Result: Projecting Your Total TSP Account Balance	
Add the results from Table A \$285,040 and Table B <u>\$162,400</u> to see your total estimated TSP account balance: \$447,440	Add your results from Table A \$ _____ and Table B \$ _____ to see your total estimated TSP account balance: \$ _____

YOUR INVESTMENT OPTIONS

INVESTMENT FUNDS



As a TSP participant, you can invest any portion of your account in the three TSP investment funds:

- Government Securities Investment (G) Fund
- Common Stock Index Investment (C) Fund
- Fixed Income Index Investment (F) Fund

You can invest (in 5 percent increments) any percentage of **future contributions** to your account in any of the three TSP funds by submitting Form TSP-1 to your personnel office during a TSP open season. See “How do I make or change my investment choices for future contributions?” on page 7.

You can also move any portion of your **existing account balance** among the three funds by requesting an interfund transfer. Your existing account balance consists of all of your previous contributions (including your agency’s contributions, if you are a FERS employee) and their earnings. You can call the TSP ThriftLine at (504) 255-8777 to make an interfund transfer request. You can also submit an Interfund Transfer Request (Form TSP-30) to the TSP Service Office. See “Interfund Transfers,” page 24, and “What is the ThriftLine?” on page 36.

Before you make your investment decision, read this section carefully. It describes the three investment funds and their advantages, risks, and performance. More information on the G, C, and F Funds is contained in the booklet *Guide to TSP Investments*, which is available from your agency personnel office. Your account is invested for your retirement, and you should make your investment decisions with this long-term goal in mind.

How will I get up-to-date information about the performance of the TSP investment funds?

You have several sources of information about the investment performance of the TSP funds. Your agency distributes the *TSP Open Season Update* to all employees every open season. This leaflet updates the 10-year investment performance information that is contained in this Plan Summary and provides the most recent annual returns for the three TSP funds.

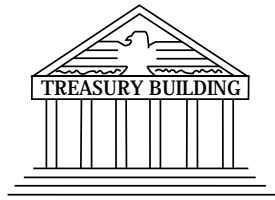
As a participant, you will receive the *TSP Highlights* with your semiannual Participant Statements (at the end of May and November). The *Highlights* provides a 10-year history of the three funds and the related securities and indexes.

Between open seasons, you can obtain the rates of return for the most recent month and the most recent 12-month period by calling the ThriftLine. This information is updated following the monthly TSP processing cycle.

Finally, every month the Board publishes the TSP Fact Sheet, “C, F, and G Fund Monthly Returns,” which is available from your agency personnel office. The fact sheet contains the monthly returns for the TSP funds. It also provides the returns for the last 12 months and the annual returns for recent years.

Who manages the TSP investment funds?

The Federal Retirement Thrift Investment Board manages the G Fund. The assets of the G Fund are held in trust in the U.S. Treasury. The Board has contracts with BZW Barclays Global Investors, N.A., a company owned by Barclays PLC, to manage C and F Fund assets. Barclays holds the C and F Fund assets in trust and acts as the investment manager. The contracts were effective January 1, 1996 and expire on December 31, 1998, with options to extend the contracts for an additional two-year period.



What is the G Fund?

The G Fund consists exclusively of investments in short-term nonmarketable U.S. Treasury securities specially issued to the TSP. Currently, maturities range from one day (on business days) to four days (over holiday weekends). G Fund investments earn interest at a rate that is equal, by law, to the average of market rates of return on U.S. Treasury marketable securities that are outstanding with four or more years to maturity.

What are the advantages and risks of investing in the G Fund?

There is no credit risk (that is, risk of nonpayment of principal or interest) for the Treasury securities in the G Fund. They are guaranteed by the full faith and credit of the U.S. Government.

The current Board policy of investing only in short-term securities eliminates market risk. Market risk is the risk of loss from fluctuations in the value of securities as a result of changes in overall market rates of interest. The value of fixed-income investments decreases as the general level of interest rates in the economy rises; it increases as interest rates fall. Market risk is greater for longer-term investments, such as those in the F Fund. Therefore, if you want low risk, the G Fund may be the most appropriate investment fund for you.

The G Fund rate calculation and the Board's policy of investing exclusively in short-term securities result in investors receiving a longer-term rate on short-term securities, while avoiding the market risk associated with longer-term securities. Thus, the G Fund will generally receive an additional interest benefit from its shorter-term investments which is not available to private investors in similar-term Treasury marketable securities.

How has the G Fund performed?

The actual rates of return for the G Fund, which has been in operation since April 1987, are presented in the following table. These rates are stated after deducting the administrative expenses of the TSP (see page 12).

The table also presents the calendar-year total rates of return for the last 10 years for G Fund-related securities, based on the monthly rates (compounded) for such securities. These figures are based on the statutory rate of return and are stated without any reduction for administrative expenses. There is no assurance that future rates of return for the G Fund will replicate any of these rates:

Year	G Fund*	Related Securities**
1986		8.29%
1987	6.42%	8.73%
1988	8.81%	9.19%
1989	8.81%	9.01%
1990	8.90%	8.97%
1991	8.15%	8.26%
1992	7.23%	7.32%
1993	6.14%	6.23%
1994	7.22%	7.29%
1995	7.03%	7.10%
1988 – 1995 compound annual rate of return		
	7.78%	7.92%
1986 – 1995 compound annual rate of return		
		8.03%

* The first G Fund investment occurred on April 1, 1987.
 ** Rates of return were calculated by the Board.

What is the C Fund?

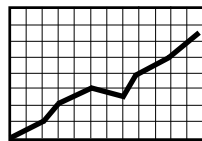
The C Fund is invested primarily in the Barclays Equity Index Fund, a commingled stock index fund that tracks the Standard & Poor's 500 (S&P 500) stock index. A commingled fund is a fund in which the assets of many plans are combined and invested together.

The Barclays Equity Index Fund, which is designed to track as closely as possible the performance of the S&P 500 index, holds common stocks of all the companies represented in the S&P 500 index. (A small portion of Equity Index Fund assets is invested in S&P 500 index futures contracts to invest dividend income and small cash balances.)

Thus, the Equity Index Fund uses a “passive” investment strategy of duplicating the performance of the S&P 500 index, rather than an “active” investment strategy, which bases the selection of stocks on economic, financial, and market analyses. The performance of the Equity Index Fund is evaluated by comparing how closely its returns match the returns of the S&P 500 index. Wilshire Associates, an investment consulting firm, calculates and publishes total rates of return for the S&P 500 index monthly.

Barclays lends stocks in the Equity Index Fund to a select group of brokers on a short-term basis. The brokers put up collateral, primarily cash, for the loaned securities. The cash collateral is invested in short-term money market instruments and in certain other short-term investments, such as interest rate swaps. The securities lending program largely offsets investment management fees and thus reduces costs.

C Fund contributions are invested in the Equity Index Fund as soon as possible after receipt, regardless of movements in the stock market. The C Fund includes temporary investments in the G Fund and certain other short-term securities pending purchase of stocks. These temporary investments also cover liquidity needs such as loans and withdrawals from the TSP.



What is the S&P 500 index?

The S&P 500 index, introduced in 1957, was designed by Standard & Poor’s Corporation to provide a representative measure of stock market performance. The index includes common stocks of 500 companies that are traded in the U.S. stock markets, primarily on the New York Stock Exchange. As of December 31, 1995, these stocks represent 89 separate industries grouped into four major sectors: industrials, utilities, financial, and transportation. The stocks in the S&P 500 index make up approximately 64 percent of the market value of the U.S. stock markets.

The 500 companies in the index are selected by S&P primarily based on the companies’ representation of their industry groupings. S&P does not select companies because the firms are expected to have superior stock price performance relative to the stock market in general or to other stocks. S&P’s sole objective is to maintain the S&P 500 index as a representative measure of U.S. stock market performance. If a company in the S&P 500 index is taken over or merged with another company, S&P will remove the company from the index and add another firm in its place. Although mergers and acquisitions are the most common reasons for changes to the S&P 500 index, S&P also removes from the index companies that file for protection under Chapter 11 of the Federal bankruptcy laws because of financial failure.

The weightings of stocks in the S&P 500 index are based on each stock’s total market value (that is, its market price per share times the number of shares outstanding) relative to the market value of the other stocks in the index. As a result, the S&P 500 is considered a “big company” index, and the largest companies in the index represent the largest portion of the index. As of December 31, 1995, the largest 100 companies in the S&P 500 represented 63 percent of the S&P 500 market value. The Barclays Equity Index Fund, in which the C Fund invests, holds the S&P 500 stocks in virtually the same weightings as they are represented in the S&P 500 index.

What are the advantages of investing in the C Fund?

The C Fund gives participants the opportunity to diversify their investments and to participate broadly in the U.S. stock markets. The shares of stock held by the Barclays Equity Index Fund represent ownership shares in a variety of companies. The values of these shares can move up sharply with favorable changes in conditions affecting the economy, an industry, or an individual company.

Investing in a stock index fund provides the opportunity to earn the relatively high investment returns sometimes available through stock ownership, as shown in the table on page 21. It also lessens the effect that the poor performance of an individual stock or industry will have on overall investment performance. In addition, the C Fund has relatively low investment management fees and trading expenses.

What are the risks of investing in the C Fund?

The value of stocks in the C Fund can decline sharply with unfavorable changes in economic conditions, an industry, or an individual company. Depending on the size of the decline, the total return on the C Fund could be negative, resulting in a loss.

There is no assurance that future rates of return for the C Fund will replicate any of the rates of return presented in the table on page 21. Only you can decide whether an appropriate mix of investments for your circumstances includes a C Fund investment. If you choose to contribute to the C Fund, the law requires that you sign a statement acknowledging that you understand and accept the risks involved.

How will the C Fund performance compare to the S&P 500 index fund?

The C Fund is invested in the Barclays Equity Index Fund, which is designed to track the S&P 500 index. The C Fund monthly returns vary from the Equity Index Fund for three reasons. First, C Fund returns are shown after the deduction of accrued TSP administrative expenses, investment management fees, and trading costs. The returns of the Equity Index Fund are shown before deduction of expenses.

Second, the C Fund monthly returns reflect net earnings on the changing balances invested during the month (that is, they are dollar-weighted). Because there generally is more money invested in the C Fund at the end of the month, the C Fund monthly returns are more influenced by the stock market returns occurring in the latter part of the month. The returns of the Equity Index Fund are

time-weighted and assume a constant dollar balance throughout the month.

Third, C Fund contributions awaiting investment in the Equity Index Fund are invested in the G Fund and other short-term investments, which may be paying more or less than the stock market at the same period of time. The interest on these short-term investments may result in slight differences between the C Fund monthly returns and the monthly returns of the Equity Index Fund.

The S&P 500 index is published daily in most newspapers. You can use this information generally to track the C Fund, although the figures published daily do not include the effects of dividend reinvestment. Dividends will add approximately .25 percent to each month's return.

How has the C Fund performed?

The total return for the C Fund is the sum of the returns of its four components:

- Net price changes on stock holdings
- Dividends on stock holdings
- Interest on short-term investments in the G Fund and other instruments
- Securities lending income

The total return for the C Fund is calculated monthly, and your account is credited with your proportional share of earnings (or losses, if any) after deducting TSP administrative expenses. Earnings are also reduced by your proportional share of C Fund investment management fees.

Although not included in C Fund administrative expenses, trading costs associated with investing in the C Fund are also incurred by C Fund participants. Trading costs reduce the amount invested in the stock market, thus reducing the total return to C Fund participants. Because of the large asset size of the investment manager's S&P 500 index fund, many C Fund purchases of stock fund units are fully exchanged with the units of other clients who are selling units. As a result of these unit exchanges, C Fund trading costs are extremely low, and many C Fund purchases incur no trading costs.

The C Fund has been in operation since January 1988. The 1988 – 1995 C Fund rates of return are presented in the following table. These rates are stated after deducting TSP administrative expenses and the C Fund management fees and trading costs (see page 12). The table also shows the calendar-year total rates of return for the S&P 500 index for the last 10 years, which are stated without deducting administrative and management expenses and trading costs.

Year	C Fund*	S&P 500 Index**
1986		18.55%
1987		5.23%
1988	11.84%	16.83%
1989	31.03%	31.53%
1990	-3.15%	-3.18%
1991	30.77%	30.57%
1992	7.70%	7.68%
1993	10.13%	9.99%
1994	1.33%	1.29%
1995	37.41%	37.48%
1988 – 1995 compound annual rate of return		
	15.03%	15.67%
1986 – 1995 compound annual rate of return		
		14.86%

* The first C Fund investment in the stock market occurred on January 29, 1988.

** Wilshire Associates' calculation of the performance of the S&P 500 index.

What is the F Fund?

The F Fund is invested primarily in the Barclays U.S. Debt Index Fund, a commingled bond index fund designed to track as closely as possible the Lehman Brothers Aggregate (LBA) index.³ The LBA represents U.S. Government, corporate, and mortgage-backed securities sectors of the fixed-income securities market. Fixed-income securities represent obligations of issuers (the borrowers) to repay the amount borrowed (the principal) to holders of the securities at maturity. These securities, which include bonds, notes, and debentures, usually pay interest semiannually until maturity.

Because the LBA index contains a large number of securities, it is not feasible for the U.S. Debt Index Fund to invest in each security in the index. Instead, it uses a mathematical model to select a

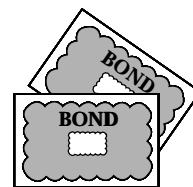
3. From January 1988 through December 1990, the F Fund was invested primarily in Barclays Bond Index Fund, which tracked the Lehman Brothers Government/Corporate bond index.

representative sample of the various types of U.S. Government, corporate, and mortgage-backed securities included in the overall index.

The U.S. Debt Index Fund uses a “passive” investment strategy of duplicating the performance of the LBA index, rather than an “active” investment strategy, which bases the selection of bonds on economic, financial, and market analyses. The performance of the U.S. Debt Index Fund is evaluated by comparing how closely its returns match those of the LBA index.

Barclays lends notes and bonds in the U.S. Debt Index Fund to a select group of brokers on a short-term basis. The brokers put up collateral, primarily cash, for the loaned securities. The cash collateral is invested in short-term money market instruments and in certain other short-term investments, such as interest rate swaps. The securities lending program largely offsets investment management fees and thus reduces costs.

F Fund contributions are invested in the U.S. Debt Index Fund as soon as possible after receipt, regardless of movements in the bond market. The F Fund also includes temporary investments in the G Fund and certain other short-term securities pending purchase of notes and bonds and for liquidity requirements.



What is the LBA index?

The LBA index was designed to measure the performance of the major bond markets in the United States and to represent the broadest sectors of the fixed-income market. As of December 31, 1995, the average maturity of the securities in the LBA index is approximately 8.5 years.

In dollar terms, U.S. Government obligations are approximately 53 percent of the LBA index. The Treasury portion, approximately 46 percent of the index, contains virtually all public obligations of the U.S. Treasury with maturities greater than one year. The Federally sponsored agency portion, approximately 7 percent of the index, contains the publicly issued obligations of agencies such as the Federal Home Loan Bank System and the Federal Farm Credit Bank System.

The corporate sector, approximately 19 percent of the LBA index, contains all publicly issued, fixed-rate, investment-grade securities of U.S. companies in many different industries. (Investment-grade securities are fixed-income securities rated at least BBB by Standard & Poor's Corporation or Baa by Moody's Investors Service.) The corporate sector also includes Yankee bonds, which are U.S. dollar-denominated securities issued or guaranteed by foreign or international entities in the United States.

Mortgage-backed securities constitute approximately 28 percent of the LBA index. They include fixed-rate, pass-through securities backed by residential mortgage pools of the Government National Mortgage Association (GNMA or Ginnie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), and the Federal National Mortgage Association (FNMA or Fannie Mae). Mortgage-backed pass-through securities are those in which investors own an interest in a pool of mortgages that serves as the underlying asset; investors receive a proportional share of the cash flows, through an intermediary, from the monthly payments of mortgages in the pool.

The mortgage pools underlying Ginnie Mae pass-through securities contain FHA-insured or VA-guaranteed mortgages. Ginnie Mae guarantees the payment of interest and principal on its pass-through securities, and these Ginnie Mae securities are backed by the full faith and credit of the U.S. Government. Ginnie Mae pass-through securities represent approximately 30 percent of the mortgage-backed securities sector.

Freddie Mac pass-through securities represent approximately 33 percent of the mortgage-backed securities sector and are based on pools of single-family residential mortgages. Freddie Mac guarantees the payment of interest and principal on its pass-through securities.

Fannie Mae pass-through securities represent approximately 37 percent of the mortgage-backed securities sector and are also based on pools of single-family residential mortgages. Fannie Mae guarantees the payment of interest and principal on its pass-through securities.

Freddie Mac and Fannie Mae are Federally sponsored agencies. However, because Freddie Mac

and Fannie Mae mortgage-backed securities are not explicitly guaranteed by the U.S. Government, yields on these securities are slightly higher than the yields on Ginnie Mae mortgage-backed securities.

Unlike the conventional fixed-income securities in the U.S. Government and corporate sectors of the LBA index, which generally pay interest through semiannual payments and return principal at maturity, mortgage-backed securities payments are made monthly and contain both interest income and a return of principal.

What are the advantages of investing in the F Fund?

The F Fund is a well-diversified portfolio of high-quality (that is, low credit risk) fixed-income securities with a broad range of issuers, industries, and maturities. The chief advantage of the F Fund compared to the G Fund is the opportunity for increased rates of return in periods of generally declining interest rates. At such times, the values of the longer-term bonds held in the F Fund should increase, unlike those of the shorter-term securities held in the G Fund. Like the C Fund, the F Fund benefits from relatively low investment management fees and trading costs.

What are the risks of investing in the F Fund?

The risks associated with the F Fund are credit risk, market risk, and prepayment risk. Credit risk is the risk that an issuer of a fixed-income security will fail to pay interest or principal. There is no credit risk for the Treasury securities in the F Fund. Credit risk is of concern primarily with the corporate bond holdings of the F Fund and is present to a degree with certain mortgage-backed securities and Federally sponsored agency securities as well. However, because the holdings from any individual corporate issuer will make up only a small part of the F Fund, the effect of credit risk is reduced. Also, credit risk is reduced because all corporate securities are investment-grade securities. There are no high-risk "junk bonds" in the LBA index.

Market risk (the risk that the market value of the investment may fluctuate with interest rate movements over time) is also present in the F Fund. It is reduced by holding securities with a variety of maturities rather than holding only longer-term bonds. Nevertheless, market risk is a major influence on the returns of the F Fund because the average maturity of securities in the LBA bond index is approximately 8.5 years, as of December 31, 1995. If you compare the past performance table for the G Fund on page 18 (which represents general interest rate trends in the economy) with the LBA bond index as shown in the table on page 24, you can see that the index has generally benefited from declining interest rates in the economy in several recent years. The interest rate increase of 1994 resulted in a negative return for the LBA index, however.

Prepayment risk is present in the mortgage-backed securities sector and with certain corporate bonds that may be “called” or prepaid by the issuers. With mortgage-backed securities, prepayment risk is the risk that during periods of declining interest rates, homeowners may refinance their high-rate mortgages and prepay the principal. Such prepayments resulting from refinancings generally have a negative effect on investors in mortgage-backed securities because cash from the prepayments must be reinvested in lower-yielding securities. During periods of declining interest rates, as refinancings and prepayments increase, prices on mortgage-backed securities may not increase as much as the prices on other fixed-income securities. To compensate for prepayment risk, mortgage-backed securities generally have higher yields than securities of similar credit quality and maturity.

Thus, there is the potential for higher earnings with the F Fund than with the G Fund. There is also a greater risk of losing money. There is no assurance that past rates of return of the F Fund will be replicated in the future. You must decide what investment mix is appropriate for your situation and the level of risk you are willing to tolerate. If you choose to contribute to the F Fund, you must sign the same acknowledgement of risk statement required by law for the C Fund.

How will the F Fund performance compare to the LBA bond index fund?

The F Fund is invested in the Barclays U.S. Debt Index Fund, which is designed to track the LBA bond index. The F Fund monthly returns vary from the U.S. Debt Index Fund for three reasons. First, F Fund returns are shown after the deduction of accrued TSP administrative expenses, investment management fees, and trading costs. The returns of the U.S. Debt Index Fund are shown before deduction of expenses.

Second, the F Fund monthly returns reflect net earnings on the changing balances invested during the month (that is, they are dollar-weighted). Because there is generally more money invested in the F Fund at the end of the month, the F Fund monthly returns are more influenced by the bond market returns occurring in the latter part of the month. The returns of the U.S. Debt Index Fund are time-weighted and assume a constant dollar balance throughout the month.

Third, F Fund contributions awaiting investment in the U.S. Debt Index Fund are invested in the G Fund and other short-term investments, which may be paying more or less than the bond market at the same period of time. The interest on these short-term investments may result in slight differences between the F Fund monthly returns and the monthly returns of the U.S. Debt Index Fund.

How has the F Fund performed?

The total F Fund return is the sum of the returns of its four components:

- Net price changes on note and bond holdings
- Interest on note and bond holdings
- Interest on short-term investments in the G Fund and other instruments
- Securities lending income

The total F Fund return is calculated monthly, and your account is credited with your proportional share of earnings (or losses, if any) after deducting TSP administrative expenses. Earnings are also reduced by your proportional share of F Fund investment management fees.

INTERFUND TRANSFERS

Although not included in F Fund administrative expenses, trading costs associated with investing in the F Fund are also incurred by F Fund participants. Trading costs reduce the amount invested in the bond market, thus reducing the total return to F Fund participants. Because of the large asset size of the investment manager's bond index fund, many F Fund purchases of bond fund units are fully exchanged with the units of other clients who are selling units. As a result of these unit exchanges, F Fund trading costs are extremely low, and many F Fund purchases incur no trading costs.

The F Fund has been in operation since January 1988. The 1988 – 1995 F Fund rates of return are presented in the following table. These rates are stated after deducting TSP administrative expenses and the F Fund management fees and trading costs (see page 12). The table also shows the calendar-year total rates of return for the LBA bond index for the last 10 years, which are stated without deducting administrative and management costs.

Year	F Fund*	LBA Bond Index**
1986		15.26%
1987		2.76%
1988	3.63%	7.89%
1989	13.89%	14.53%
1990	8.00%	8.96%
1991	15.75%	16.00%
1992	7.20%	7.40%
1993	9.52%	9.75%
1994	-2.96%	-2.92%
1995	18.31%	18.47%
1988 – 1995 compound annual rate of return		
	8.97%	9.83%
1986 – 1995 compound annual rate of return		
		9.63%

* The first F Fund investment in the bond market occurred on January 29, 1988. Through December 1990, the F Fund was invested in the Barclays Bond Index Fund, which tracked the Lehman Brothers Government/Corporate bond index.

** Calculated by Lehman Brothers.

What is an interfund transfer?

An interfund transfer is the movement of some or all of your existing account balance among the G, C, and F Funds. You may move all or part of the money in your account from one fund to any other fund. If you are a FERS employee, this includes your agency contributions and their earnings, even if you have never contributed your own money to your account.

The TSP recordkeeper executes an interfund transfer in response to your request. You can only request changes in terms of the percentage of your total account balance that you want invested in each of the three funds after the transfer is completed. You cannot request to have specific dollar amounts of money moved.

An interfund transfer is different from the allocation of future contributions that you make on your Election Form (TSP-1), because the interfund transfer involves only money that is already in your account. It does not change the way new contributions are allocated to the three funds.

What information should I consider before I decide to make an interfund transfer?



Before deciding to make an interfund transfer, you should consider carefully the advantages and risks involved in investing in each of the three TSP funds. Read the section of this booklet entitled, "Your Investment Options," beginning on page 17.

The TSP is not responsible for investment results. The law requires that you sign a statement acknowledging that you understand and accept the risks of investing in the C or F Fund before you may invest in either of these funds.

How often can I make a transfer?

The TSP recordkeeper processes interfund transfer requests monthly, effective as of the end of the month. You can make an interfund transfer in any month you wish, without an annual limit.

How do I make an interfund transfer?

The ThriftLine, (504) 255-8777, is the most efficient way to request an interfund transfer (see page 36). With the ThriftLine, your request is recorded immediately, avoiding mailing and processing time. You can use the ThriftLine to request an interfund transfer if you have previously invested in the C or F Fund. If you have not, you can use the ThriftLine to have an Acknowledgement of Risk form mailed to you.

When you call the ThriftLine, you will be asked for your Social Security number and your Personal Identification Number (PIN). To request a transfer, follow the ThriftLine instructions and enter the percent of your total account balance that you want invested in each fund. Percentages must be stated in 5 percent increments and must total 100 percent. Be sure to stay on the line to confirm the percentages, or your transfer will not be effective.

You can also submit an Interfund Transfer Request (Form TSP-30) to the TSP Service Office at the address provided on the form. You can obtain the form from your agency or, if you have left Federal service, from the TSP Service Office. **Do not submit an Interfund Transfer Request to your agency.** Your agency cannot process an interfund transfer.

When will my interfund transfer be effective?

Interfund transfer requests made on the ThriftLine by midnight (central time) on the 15th of the month or on a Form TSP-30 that is received by the TSP Service Office by the 15th of the month are effective as of the last day of that month. If the 15th day of the month falls on a weekend, holiday, or other nonbusiness day, the deadline will be the next business day. Requests made (or received by the TSP Service Office) after the deadline are effective at the end of the following month.

How will I know the result of an interfund transfer request?

When you request an interfund transfer on the ThriftLine, the TSP recordkeeper will send you Form TSP-33, Confirmation of Request for Interfund Transfer Through the ThriftLine. It will confirm the percentages of your account balance that you asked to have invested in each of the three funds.

After your transfer has been made — whether by means of the ThriftLine or Form TSP-30 — the TSP recordkeeper will send you Form TSP-31, Confirmation of Interfund Transfer. This confirmation will show you the percentage and dollar distribution of your account balance in each of the three funds both before and after the transfer. The after-transfer percentages on your Form TSP-31 should be the same as those you chose on the ThriftLine or Form TSP-30.

The table below summarizes the interfund transfer schedule:

When the ThriftLine or TSP Service Office receives your request by the 15th of the month (or following business day):

The effective date of your interfund transfer will be: → **Last calendar day of the month**

You will receive confirmation of your request (ThriftLine only) within: → **10 business days of the call**

And you will receive confirmation of the transfer by: → **Last calendar day of the following month**

Can I cancel or change an interfund transfer request?

You can use the ThriftLine to review, replace, or cancel a pending interfund transfer request, but only until the deadline for the month of your original request. If you request a change after the deadline, it will be made effective in the month following the effective date of your original request. Your original request will be processed as scheduled. A cancellation made after the deadline will not be effective.

If you are cancelling or changing your request on the ThriftLine, be sure to stay on the line to confirm your new percentages or cancellation, or your change will not be effective. The TSP will send you a confirmation of the new request or the cancellation.

By using the ThriftLine for all of your interfund activity, you can make, replace, or cancel a pending interfund transfer request right up to the deadline on the 15th of the month. On the other hand, if you make a request on Form TSP-30, you may not be able to cancel it using the ThriftLine because the data on your form may not be entered until after the deadline. You should not mix paper and ThriftLine requests.

To change an interfund transfer request using Form TSP-30, submit the form — with your new percentages — to the TSP Service Office. If the form is received on or before the deadline for the month in which your original request would have been effective, it will replace your previous request. If your second request is received after the deadline for that month, your original request will be processed as scheduled. Your second interfund transfer request will be effective at the end of the following month.

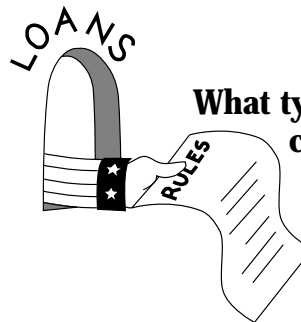
You can cancel a transfer request by writing to the TSP Service Office, as long as your letter is received by the deadline for the month in which the transfer would have been effective. Your letter must be signed by you and must include your Social Security number and date of birth. You should also provide your daytime telephone number. You will receive notice of the cancellation.

What if I have questions about an interfund transfer?

If you have questions about an interfund transfer, contact the TSP Service Office. Your agency is not involved in processing interfund transfers and cannot answer questions about your interfund transfer.

TSP LOAN PROGRAM

While you are still employed by the Federal Government, the TSP loan program may give you access — for certain purposes — to money that you have contributed to your TSP account. You must be in pay status to obtain a loan, because you repay your TSP loan through payroll allotments.



**What types of loans can I apply for?
How many loans can I have at one time?**

You can borrow from your own contributions and their earnings for certain purposes specified by law:

- Purchase of a primary residence
- Education expenses
- Medical expenses
- Financial hardship

You must submit documentation to support the amount of your loan request, such as a contract for purchase of your residence, a bill for tuition, or a doctor's bill.

You can have two loans outstanding at any one time. However, you cannot have two residential loans or two loans for financial hardship at a time.

What are the minimum and maximum amounts I can borrow?

The **minimum** loan amount is \$1,000. Therefore, you must have at least \$1,000 of your own contributions and earnings on those contributions in your TSP account to apply for a loan. Because you can borrow only your own contributions and earnings, the **maximum** loan amount depends, in part, on the amount you have contributed. The amount you can borrow is also limited by the IRS.

To find out the amount you may be eligible to borrow from your TSP account, call the TSP ThriftLine at (504) 255-8777 (see page 36).

What will the interest rate be?

The interest rate for the life of a TSP loan is the latest available interest rate on the G Fund at the time your application is received at the TSP Service Office. The interest you pay on the loan will go into your TSP account, along with repayments of loan principal. The ThriftLine will tell you the current interest rate for TSP loans.

How do I apply for a loan?

Ask your personnel office for the booklet *Thrift Savings Plan Loan Program*. The booklet tells you all about the loan requirements and your obligations if you take a loan. It is important that you read this booklet before you apply for a loan. For a residential, education, or medical loan, ask your personnel office for Form TSP-20, Loan Application. For a financial hardship loan, ask for Form TSP-20-H, Hardship Loan Application, or call (504) 255-6050.

Submit your application to the TSP Service Office at the address on the form. **Do not send your Loan Application to your agency; only the TSP Service Office can process a TSP loan.** When your loan application is received, the TSP Service Office will send you a Loan Agreement/Promissory Note, which specifies the terms of your loan, and the appropriate form to document the amount you are requesting.

Does my spouse have to consent to my loan?

If you are a married FERS participant, the law requires that your spouse consent to your TSP loan. If you are a married CSRS participant, the law requires the TSP to notify your spouse before your loan is approved. See “Spouses’ Rights,” page 34.

How long does it take to get a loan?

You should anticipate that there will be six to eight weeks between the time you submit your Loan Application and the time a check is mailed to you. When you receive your loan depends in part on how promptly you return your Loan Agreement/Promissory Note and the supporting documentation for your loan.

Loans are disbursed once a month. The month in which your loan is disbursed depends on when the TSP Service Office receives your completed and signed Loan Agreement/Promissory Note and the supporting documentation necessary to approve your loan and schedule it for disbursement.

How do I repay my loan?

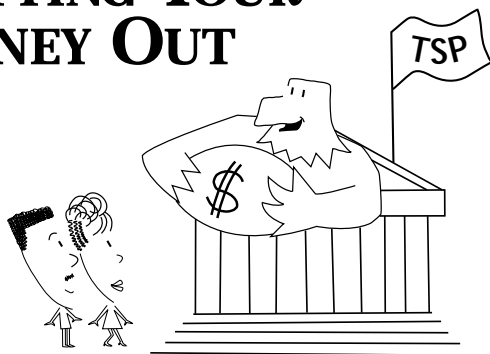
Loans must be repaid through payroll allotments over the payment period specified in your Loan Agreement/Promissory Note. If the recordkeeper does not receive payments from your agency payroll office in accordance with the repayment schedule, you may have to reamortize your loan or repay the loan in full. Reamortization means that your loan payments will be recalculated based on a new balance (including interest owed for the period of missed or incorrect payments) and sometimes based on a new loan repayment period. You can repay the loan in full — plus any unpaid interest — before the end of your loan repayment schedule without penalty.

If correct loan payments are not received from your agency in accordance with the repayment schedule and you fail to reamortize your loan or you do not repay your loan within the required time frame, the TSP will declare a taxable distribution in the amount of the unpaid loan balance and any unpaid interest. The distribution will be subject to income tax for the year in which it is declared. You may also be subject to the 10 percent IRS early withdrawal penalty tax on this distribution. Once a distribution has been declared, you cannot repay your loan.

Thus, if your loan payments are incorrect or if they are missed for any reason (e.g., error, leave without pay, transfer to another agency), you should contact your agency and the TSP Service Office immediately. You are responsible for repayment of your loan.

If you leave Federal service, you **must** repay the loan in full, including interest on the outstanding balance to the date of repayment. Delay in repaying your loan may affect the processing of your withdrawal. If you do not repay the loan within the required time frame, the TSP will declare a taxable distribution, as described above.

GETTING YOUR MONEY OUT



The TSP is a plan for long-term retirement savings with special tax advantages. **By law, you cannot withdraw your TSP account while you are still employed by the Federal Government. You must be separated for 31 or more full calendar days to be eligible to withdraw your account.**

When you leave Federal service, your agency must give you a Withdrawal Package which includes TSP withdrawal forms and the booklet *Withdrawing Your TSP Account*. The booklet describes your TSP withdrawal options and the procedures for withdrawing your account. Your agency must also provide you with a copy of the notice "Important Tax Information About Payments From Your Thrift Savings Plan Account."

If you have left Federal service, call or write the TSP Service Office for these materials. It is important that you read these materials before you choose a withdrawal option.

After your account has been disbursed, you cannot change your request. (However, if you are receiving a series of monthly payments, you can request at any time to have the balance of your account paid out in a single payment, or change where your payments are sent.)

What are my TSP withdrawal options?

The TSP provides three basic ways to withdraw your account:

- Have the TSP purchase a **life annuity** for you. You have a choice of many different annuities. See "TSP Annuities," page 32.
- Receive your account in a **single payment**.
- Receive your account in a **series of monthly payments**. You have a choice as to how your payments will be calculated. You can choose to receive payments for a fixed number of months or in a fixed dollar amount until your account is depleted. You can also have the TSP compute monthly payments for you based on an IRS life expectancy table.

You can have the TSP transfer all or part of a single payment or, in some cases, a series of monthly payments, to an Individual Retirement Arrangement (IRA) or other eligible retirement plan. An eligible retirement plan is one of the following: a tax-qualified employee benefit plan, an IRA, an individual retirement annuity, or an annuity plan described in section 403(a) of the *Internal Revenue Code*. The IRA or plan must be established in the United States (that is, in one of the 50 states or the District of Columbia).

You can have your payment(s) begin immediately or at a later date. Tax penalties may apply if you separate or retire before the year in which you turn 55 and withdraw funds before age 59½. See "How will my TSP benefits be taxed?" on page 30. Also, there are limits on how long you can leave your money in the TSP. See "How long can I leave my money in the TSP?" and "What are 'required minimum distributions'?" on page 31.

If you are a FERS employee and you have not met the TSP vesting requirements when you leave Federal service, you are not entitled to the Agency

Automatic (1%) Contributions in your TSP account (or their earnings). This money will be forfeited to the TSP. See “What does vesting mean?” on page 10.

If your vested account balance is less than \$5.00, it will be forfeited to the TSP automatically unless you request payment.

How do the rights of my spouse affect my withdrawal choice?

If you are a married participant, spouses’ rights requirements will apply to your withdrawal choice. If you are a married FERS participant, your spouse has the right to a joint and survivor annuity with 50 percent survivor benefit, level payments, and no cash refund feature, **unless** your spouse waives his or her right to that annuity. If you are a married CSRS participant, the TSP must notify your spouse of your withdrawal election. See “Spouses’ Rights,” page 34.

What is an automatic cashout?

If your vested account balance is \$3,500 or less and you do not submit a withdrawal request, the TSP will pay your account balance to you automatically in a single payment. The TSP will notify you before the payment is made and will give you the opportunity to choose another withdrawal option or elect to leave your money in the TSP.

If you cannot be located, your account will be declared abandoned and will be forfeited to the TSP. You may reclaim your abandoned account at a future date, but you will receive no earnings for the period during which it was abandoned.

Spouses’ rights requirements do not apply to automatic cashouts or other withdrawals when your account balance at disbursement is \$3,500 or less. An automatic cashout is subject to the same taxes as other cash payments from the TSP. See “How will my TSP benefits be taxed?” on page 30.

How do I request a withdrawal of my TSP account?



Complete a Withdrawal Request (Form TSP-70) to specify which TSP withdrawal option you want and when you want your withdrawal to take place. If you want to transfer your account to an IRA or other eligible retirement plan, you and the financial institution will also need to complete Form TSP-70-T, Transfer Information.

Send your forms to the TSP Service Office at the address on the forms. **Do not submit your Withdrawal Request prior to the date that you separate from service, and do not submit it to your agency.** Only the TSP Service Office can process your Withdrawal Request. After you have left Federal service, the TSP Service Office will be your primary contact for information about your account and about withdrawal procedures.

Your agency payroll office must report your separation and its effective date to the TSP recordkeeper before your withdrawal can be processed. It usually takes several weeks for agencies to send separation data to the recordkeeper.

How long does it take to make a withdrawal?

You should anticipate that there will be up to four weeks between the time that all required forms and information are submitted by you **and** your agency and the time that payment is mailed to you. You may check on the status of your withdrawal request by calling the TSP ThriftLine (see page 36).

The TSP recordkeeper disburses withdrawals once a month. The month in which your withdrawal is made depends on when the recordkeeper receives your completed forms and the separation information from your agency to approve your withdrawal and schedule it for disbursement.

Under certain conditions, the TSP reserves the right to postpone processing of a withdrawal when the Withdrawal Request is received after the end of a month (but before the monthly processing cycle). For example, if you have investments in the C or F Fund and there is a sharp decline in the value of the funds accompanied by an unusually large number of requests for disbursements after the month has ended, the TSP may not pay your withdrawal until the following month. This policy is required to prevent removal of funds from the TSP before losses in the C and F Funds have been allocated to all participants, including those who are in the process of withdrawing their accounts.

Can I withdraw my account if I am rehired?

Your break in service must be 31 or more full calendar days for you to be eligible to withdraw your TSP account. If your break in service is less than 31 full calendar days, you cannot withdraw your account.

If you plan to be rehired after 31 days, but you want to withdraw your TSP account, you must submit your completed withdrawal forms to the TSP Service Office **before** you return to Federal service.

How will my TSP benefits be taxed?

All of the money from your TSP account will be taxed as ordinary income for Federal tax purposes in the year (or years) that you receive it. This is because your contributions to your TSP account are taken out of your pay before your Federal (and, in most cases, state) income taxes are computed. Also, your earnings on your TSP account are not subject to Federal income tax while the money is in the TSP.

The way that you withdraw your account determines when you must pay the income tax. Because some withdrawal methods defer your receipt of the money in your account, your tax liability is also deferred. If you have the TSP transfer all or part of your payment(s) to an IRA or other eligible retirement plan, you will not pay Federal income tax until you receive payments from your IRA or plan. Therefore, there is no withholding at the time of the transfer. However, there is **mandatory 20 per-**

cent Federal income tax withholding on certain payments that you receive directly. If you receive the money directly — even if you plan to roll it over to an IRA or other plan within 60 days of receipt of the funds — the TSP must withhold 20 percent for Federal income tax.

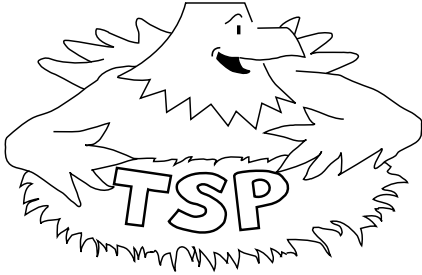
In addition to the ordinary income tax that you pay on money you receive directly from your account, the IRS imposes a 10 percent penalty tax on amounts that you receive from the TSP if you separate or retire **before the year in which you reach age 55** and if you withdraw your account early in a single payment or a series of monthly payments. In this case, you will be subject to the penalty tax on all amounts that you receive before age 59½. However, the penalty tax does not apply to a series of monthly payments based on life expectancy, nor is it imposed on annuity payments, payments made because of death, and payments made to participants who retire on disability.

If you separate or retire during or after the year in which you reach age 55, you will not be subject to the penalty tax on your withdrawal.

Certain TSP participants — such as air traffic controllers, law enforcement officers, firefighters, and Foreign Service personnel — routinely retire before age 55. Other participants may retire before age 55 under discontinued service or early-out provisions. Such participants (and others who separate before the year they become age 55) may want to consult with their tax advisors or the IRS regarding the early withdrawal penalty rules before making a withdrawal choice.

For detailed information about the tax consequences of your withdrawal choice and tax withholding requirements, read the tax notice “Important Tax Information About Payments From Your Thrift Savings Plan Account.” Your agency personnel office must provide you with this notice when you separate from service. If it does not, ask your personnel office for a copy. State and local laws vary in the treatment of TSP withdrawals. You should consult with your state or local tax authority concerning taxation of your TSP withdrawal.

How long can I leave my money in the TSP?



If you do not want to withdraw your account when you leave Federal service, you can leave your entire account balance in the TSP. However, you will need to make an election by February 1 of the year **following the year** in which the later of these events occurs:

- You turn 65.
- You reach the tenth anniversary of the first contribution to your TSP account. (This includes your Agency Automatic (1%) Contribution, if you are a FERS participant.) Because the TSP did not begin until April 1, 1987, the tenth anniversary can be no earlier than April 1, 1997.

At that time, you can choose an immediate withdrawal or an option with a specific future payment date, as long as it is not later than March of the year following the year you become 70½. You can change your election prior to payment if there is time to process it before disbursement.

Note: If you are already age 65 or older when you separate from service and have been a participant in the TSP for 10 or more years, you have until February 1 of the year following the year in which you separate from service to make an election.

If you do not make a withdrawal election by the required date, your TSP account must be paid to you in the form of an annuity, as required by law. If you do not provide the necessary information for the TSP to purchase an annuity for you (and your spouse, if applicable), your account will be declared abandoned. You may later reclaim your account and make an appropriate election; however, you will receive no earnings from the date your account was declared abandoned.

What are “required minimum distributions”?

The minimum distribution requirement applies only to participants who have separated from service. It does not apply to active employees, regardless of their age. If you have separated from service, the IRS requires that you begin to receive payments from your account after you become 70½. The TSP will calculate the amount of your minimum distribution each year based on your account balance and your life expectancy, according to an IRS table. The TSP will notify you and make the minimum distribution payments to you automatically by April 1 following the year you become 70½ and each December thereafter; you cannot elect when you receive them.

To learn more about the minimum distribution requirement, ask your personnel office for the TSP Fact Sheet “Information About Your Thrift Savings Plan Required Minimum Distribution.”

What happens to my TSP account balance if I die?

If you die before your TSP account is completely withdrawn, the balance in your account will be distributed according to your most recent valid Designation of Beneficiary (Form TSP-3), if you completed one. See “How do I designate beneficiaries for my TSP account?” on page 8.

If you did not file Form TSP-3, your account will be distributed according to the order of precedence required by law: to your widow or widower; if none, to your child or children equally, and descendants of deceased children by representation; if none, to your parents equally or the surviving parent; if none, to the appointed executor or administrator of your estate; if none, to your next of kin who is entitled to your estate under the laws of the state in which you resided at the time of your death.⁴

4. For this order of precedence, a child includes a natural child and an adopted child, but does not include a stepchild who has not been adopted. A parent does not include a stepparent, unless your stepparent has adopted you. “By representation” means that, if a child of the participant dies before the participant dies, that child’s share will be divided equally among his or her children.

Summary of Annuity Options

Single Life —

- | | |
|--|---|
| 1. Level Payments <ul style="list-style-type: none"> • with no additional features • with cash refund feature • with 10-year certain feature | 2. Increasing Payments <ul style="list-style-type: none"> • with no additional features • with cash refund feature • with 10-year certain feature |
|--|---|

Joint Life with Spouse —

- | | |
|---|--|
| 3. Level Payments <ul style="list-style-type: none"> • 100% survivor annuity • 50% survivor annuity • 100% survivor annuity with cash refund feature • 50% survivor annuity with cash refund feature | 4. Increasing Payments <ul style="list-style-type: none"> • 100% survivor annuity • 50% survivor annuity • 100% survivor annuity with cash refund feature • 50% survivor annuity with cash refund feature |
|---|--|

Joint Life with Other Survivor

(having an insurable interest) —

- | | |
|---|---|
| 5. Level Payments <ul style="list-style-type: none"> • 100% survivor annuity* • 50% survivor annuity • 100% survivor annuity with cash refund feature* • 50% survivor annuity with cash refund feature | <p>* Note: Person with insurable interest cannot be more than 10 years younger than participant.</p> |
|---|---|

How do the rights of my spouse affect my annuity choice?

Your spouse (including a separated spouse) has certain rights that must be taken into consideration before a TSP annuity can be purchased for you. If you are a married FERS participant, your spouse has the right to a joint and survivor annuity with 50 percent survivor benefit, level payments, and no cash refund feature, **unless** your spouse waives his or her right to that annuity. If you are a married CSRS participant, the TSP must send a notice to your spouse before your annuity is purchased, stating which annuity option you have chosen. See “Spouses’ Rights,” page 34.



How can I estimate my monthly annuity payments?

The amount of your monthly annuity payments depends to a large degree on the size of your TSP account balance. In addition, your annuity option and age (and your joint annuitant’s age in the case of a joint life annuity), as well as interest rates at

the time that the TSP purchases your annuity, all affect the monthly amount that you will receive.

You can use the table below to get an idea of what your monthly annuity payments might be. It reflects the contract with the TSP annuity vendor, Metropolitan Life, that is in effect through December 1998.

Approximate Monthly Annuity Payments* per \$1,000 of Your TSP Account Balance

Age	Single Life Annuities		Joint Life Annuities	
	Life Only	10-Year Certain and Life	100% Spouse Same Age	50% Spouse Same Age
50	\$6.90	\$6.84	\$6.40	\$6.90
55	\$7.27	\$7.16	\$6.62	\$7.27
60	\$7.77	\$7.59	\$6.93	\$7.77
65	\$8.51	\$8.17	\$7.38	\$8.51
70	\$9.57	\$8.90	\$8.05	\$9.57
75	\$11.11	\$9.75	\$9.04	\$11.11

* These figures illustrate an annuity payment schedule assuming a 7% interest rate index and level payments. The interest rate index for the month in which the TSP purchases your annuity will affect payment amounts.

How will my annuity payments be taxed?

Your annuity payments will be taxed as ordinary income in the years in which you receive them. The mandatory 20 percent Federal income tax withholding does not apply to annuity payments, and annuity payments are not subject to the IRS early withdrawal penalty. See “How will my TSP benefits be taxed?” on page 30.

How can I get more information about TSP annuities?

Ask your agency personnel office for the booklet *Thrift Savings Plan Annuities* or, if you have left Federal service, call or write the TSP Service Office for a copy. The booklet describes the annuity options in detail and includes a worksheet and tables so that you can estimate the amount of your monthly annuity payments. It is important that you read the booklet before choosing an annuity. Because rates change over time, be sure that you are using the most current booklet if you are close to purchasing an annuity.

••• SPOUSES' RIGHTS

What are spouses' rights under the TSP?

The law gives certain rights to your spouse (including a separated spouse). These rights must be taken into consideration when you withdraw or borrow from your TSP account. Therefore, you must provide spousal information when you apply for a loan or before you withdraw your TSP account.

Borrowing from your TSP account — If you are a married FERS participant, you must obtain the consent of your spouse before you can receive a TSP loan. Your spouse's consent does not make him or her a co-signer of your loan or obligate your spouse to repay your loan. If you are a married CSRS participant, the TSP must notify your spouse before your loan is approved.

Making a withdrawal election — Spouses' rights provisions apply only to withdrawal elections for TSP accounts that are more than \$3,500. If you are a married FERS participant, your spouse must waive his or her right to a survivor annuity if you choose a withdrawal method other than a joint life annuity with your spouse, with 50 percent survivor benefit, level payments, and no cash refund feature. If your spouse does not waive his or her rights to the prescribed annuity, you cannot withdraw your account by any other method. If you do not elect the prescribed annuity or obtain your spouse's waiver by the date on which you are required to make an election, the Executive Director must purchase a joint and survivor annuity for you and your spouse with your TSP account. See "How long can I leave my money in the TSP?" on page 31.

If you are a married CSRS participant, the TSP must notify your spouse before you withdraw your account.



Are there any exceptions to the spouses' rights requirements?

Under certain circumstances an exception may be granted to the spouses' rights requirements. To apply for an exception, complete Form TSP-16, Exception to Spousal Requirements, and submit it with the required documentation to the TSP Service Office at the address on the form. You can get Form TSP-16 from your personnel office.

The following chart summarizes the TSP spousal requirements and the exceptions to these requirements.

Spouse's Rights			
Activity	Classification	Requirement	Exceptions
Withdrawal	FERS	Spouse is entitled to a joint life annuity with 50% survivor benefit, level payments, and no cash refund feature unless he or she waives this right.	Whereabouts unknown or exceptional circumstances
Withdrawal	CSRS	TSP must notify spouse of the participant's election before withdrawal.	Whereabouts unknown
Loan	FERS	Spouse must give written consent to the loan.	Whereabouts unknown or exceptional circumstances
Loan	CSRS	TSP must notify spouse of the participant's loan application.	Whereabouts unknown

Note: The criteria for a claim on the basis of exceptional circumstances are strict. The fact that there is a separation agreement, a prenuptial agreement, a protective or restraining order, or a divorce petition does not in itself support a claim of exceptional circumstances. For more information on establishing an exception to the spouses' rights requirements, see Form TSP-16.

How does a court order affect my account?

In addition to the above spouses' rights provisions, your TSP account is subject to certain matrimonial court orders. These are court decrees of divorce, annulment, or legal separation, or the terms of

court-approved property settlements incident to any court decree of divorce, annulment, or legal separation which meet the requirements stated in Board regulations (found at 5 C.F.R. Part 1653, Subpart A).

Your account is also subject to the enforcement of your legal obligations to make alimony and child support payments, and to satisfy judgments against you for child abuse.

You cannot make a decision concerning your account that will conflict with a qualifying court order obtained by your spouse or former spouse. In order to authorize payment from your account, a qualifying court order must clearly identify your TSP account, and must express the award to your spouse, former spouse, or other party in such a way that the amount can be definitively calculated.

To find out more about court orders, ask your personnel office for the TSP booklet *Information About Court Orders*.

OTHER TSP INFORMATION

Are there tax limits on the amount I can contribute to the TSP?

Yes. The IRS sets an annual limit — the elective deferral limit — on the amount that you can elect to contribute to a tax-deferred retirement plan such as the TSP. The IRS adjusts the elective deferral limit each year to take into account increases in the cost of living. The elective deferral limit does not affect most Federal employees because their contributions to the TSP are already limited to 10 percent (FERS) or 5 percent (CSRS) of their basic pay each pay period — an amount that is generally less than the IRS elective deferral limit. For 1996, the maximum amount of your own pay that you could contribute to the TSP was \$9,500. The TSP will not accept any contributions that exceed this limit (or any matching contributions related to them).

If you contribute to the TSP and another tax-deferred plan during the year, your combined con-

tributions to both plans may not exceed the IRS limit as it applies to your particular combination of plans. (The maximum amount that you can contribute to the TSP and other plans — for example, 401(k), 403(b), and 457 plans — varies. If you have questions about your particular situation, you should consult your tax advisor or the IRS.)

If you exceed the applicable annual limits, you can request a refund of the excess amount from one or more of the plans. To request a refund of excess contributions from the TSP, contact the TSP Service Office to obtain an application for a refund. You must complete this application and return it to the TSP Service Office so that it is received by February 20 of the year after the excess contributions were made.

If you are a FERS employee with an annual base salary of more than 10 times the IRS limit (for example, a salary of more than \$95,000 in 1996), you should keep the annual limit on tax-deferred contributions in mind when deciding how much you will contribute to your TSP account each pay period. You could lose the opportunity to receive some Agency Matching Contributions if you reach the annual maximum too quickly, because you only receive Agency Matching Contributions on the first 5 percent of your basic pay that you contribute **each pay period**. If you reach the annual limit before the end of the year, your contributions (and your Agency Matching Contributions) will stop. As a result, you will not get the full amount of Agency Matching Contributions that you could have received if your own contributions had been slightly less each pay period, but had continued over every pay period throughout the entire year.

For detailed information on how to spread out your contributions over the entire year, ask your personnel office for the TSP Fact Sheet “Annual Limit on Elective Deferrals.”

Does my participation in the TSP affect my IRA?

Participation in the TSP does not affect your ability to contribute to an IRA. Because you are a Federal employee covered by a Government retirement plan, your ability to make tax-deductible contributions to an IRA depends upon your income and that of your spouse.

When you separate, you can transfer your TSP account into your IRA or roll it over without regard to the annual limits that the IRS imposes on IRAs. However, you cannot roll your IRA or a payment from another retirement plan **into** the TSP.

How do other legal requirements affect my TSP account?

Your TSP account is not subject to bankruptcy proceedings and cannot be garnished for payment of debts.

How do I get written verification of my account balance?

Occasionally, participants need verification of their current account balances when, for example, they are applying for mortgages or commercial loans. If your most recent Participant Statement or a call to the ThriftLine will not meet your need for this information, write to the TSP Service Office. Your signed request should include your Social Security number and your date of birth.

What is the ThriftLine?

The ThriftLine is an automated telephone service for the TSP that is available 24 hours a day, 7 days a week from a touch-tone telephone. (No live operator is involved.) The ThriftLine offers you the monthly rates of return for the three TSP funds, as well as the most recent 12-month rates of return.

If you are a participant in the TSP, you can use the ThriftLine to obtain information about your account. You can find out your account balance each

month in each of the TSP funds in which you are invested.

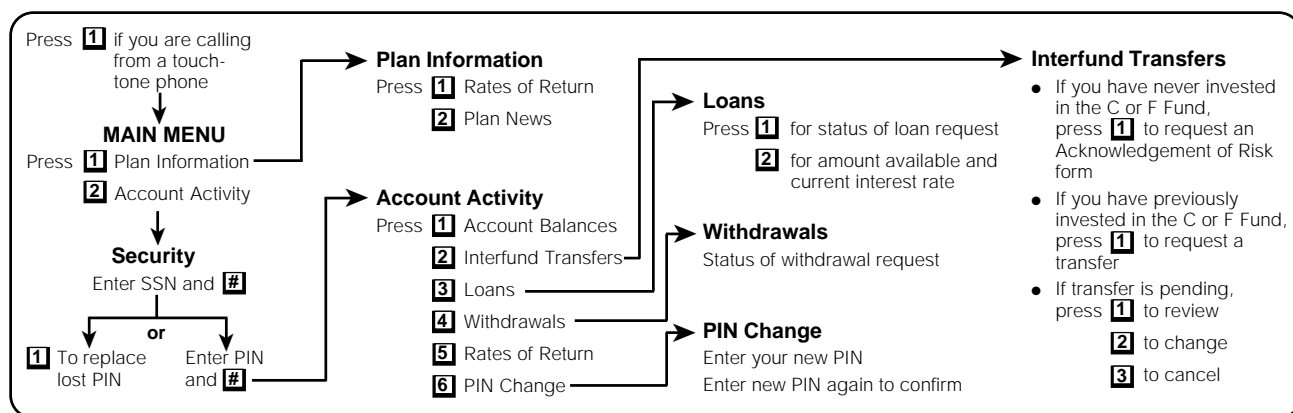
If you have ever invested in the C or F Fund, you can use the ThriftLine to request an interfund transfer (that is, to request a change in the allocation of the balances in your TSP account that are invested in the three TSP funds). If you have never invested in the C or F Fund, you can call the ThriftLine and have an Acknowledgement of Risk form sent to you. Submitting that form to the TSP Service Office will enable you to use the ThriftLine for interfund transfers in the future.

If you have contributed your own money to your account (and are still employed by the Government), the ThriftLine can tell you the amount you may be eligible to borrow and the current interest rate for TSP loans. If you have already applied for a loan, the ThriftLine can tell you the status of your loan request.

If you have left Federal service and have applied for a withdrawal of your account, the ThriftLine can tell you the status of your withdrawal request.

Call the ThriftLine at (504) 255-8777. (This is not a toll-free number.) You will need your Social Security number and your Personal Identification Number (PIN). If you do not remember your PIN, you can call the ThriftLine to request to have a new PIN mailed to you. You can also ask the ThriftLine to change your existing PIN to a four-digit number of your choice.

The following chart outlines the ThriftLine features. For more detailed information about the ThriftLine, ask your personnel office for the TSP Fact Sheet "Using the ThriftLine."



TSP Materials

The following materials are available from your agency personnel office.

Booklets:

Summary of the Thrift Savings Plan for Federal Employees
Open Season Update (published every six months)
TSP at a Glance
Guide to TSP Investments
Thrift Savings Plan Loan Program
Withdrawing Your TSP Account
Thrift Savings Plan Annuities
Information About Court Orders

TSP Fact Sheets:

Annual Limit on Elective Deferrals
C, F, and G Fund Monthly Returns (published every month)
Calculating Participant Earnings on TSP Investments
Information About Your TSP Required Minimum Distribution
The Thrift Savings Plan and IRAs
Using the ThriftLine
Why TSP Contributions Are Capped at 10% for FERS Employees
Why TSP Contributions Are Capped at 5% for CSRS Employees
Your TSP Account Address

TSP Service Office

The TSP Service Office is the primary contact for participants who have left Federal service. It also handles loans, interfund transfers, designation of beneficiaries, and withdrawals.

TSP Service Office
National Finance Center
P.O. Box 61500
New Orleans, LA 70161-1500

If you are currently employed, your primary contact for TSP information is your agency personnel office.

Notices:

Important Tax Information About Payments From Your Thrift Savings Plan Account
Important Tax Information About Thrift Savings Plan Death Benefit Payments
Tax Treatment of Thrift Savings Plan Payments Made Under Qualifying Orders

Video:

The TSP Video — A 10-minute animated video that explains the basics of the TSP. Ask your personnel office for a viewing.

Materials for employees with special needs:

For visually impaired employees:

- Large print version of the Plan Summary
- Recording of the Plan Summary on audiocassettes

For hearing-impaired employees:

- Open-captioned version of the TSP Video

Ask your personnel office for these materials (available through your agency's TSP coordinator) or for a viewing of the video.

TSP Telephone Numbers

TSP ThriftLine: (504) 255-8777
(an automated voice response system available 24 hours a day, 7 days a week)

Text Telephone for Hearing-Impaired Participants: (504) 255-5113
(7:45 a.m. – 4:15 p.m. central time Monday through Friday)



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