



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

April 20, 2012

Memorandum for Board Members Kennedy, Duffy, Bilyeu,
McCray and Jones

From: Renée C. Wilder
Director – Office of Research & Strategic Planning

A handwritten signature in black ink, appearing to be "RCW", written over the text "Director – Office of Research & Strategic Planning".

Re: Auto-Escalation

Recently Senator Akaka's staff shared a draft legislative proposal which recommends enhancing the existing auto-enrollment feature into the TSP by pairing it with an auto-escalation feature (see attached). As you may recall, effective August 2010, auto-enrollment caused new Federal employees (FERS) to be enrolled into the TSP at a deferral rate of 3% of basic pay. Individuals have the ability to opt-out of auto-enrollment and have a period of 90 days in which to request a refund of the initial contributions made via auto-enrollment.

Auto-escalation will cause new Federal employees who are auto-enrolled to have their 3% base auto-enroll deferral level automatically increased each year. The draft legislation envisions that auto-escalation would be effective for a period determined by the TSP, but not less than three years. Assuming a 3% auto-enroll deferral rate and a 1% annual escalation rate, a three-year auto-escalation structure would bring auto-enrolled participants to a deferral level of 6% by the third year of employment (note: full matching is achieved at 5%¹). With the inclusion of agency matching contributions and the automatic agency 1% contribution, the participant would "automatically" reach a total annual contribution level of 11%, as compared to 7% in the current structure.

Senator Akaka's staff solicited our input on the draft proposal. We informed them that we are closely following the academic and private sector research which indicates that auto features lead to improved retirement savings rates. Additionally, we noted to the Senator's staff that FERSA was designed with an anticipated TSP deferral level of 5% for most Federal workers, resulting in retirement benefits (when combined with the basic annuity and Social Security) that are approximately the same as CSRS. We suggested that, if the desire is to modify this goal by setting the "standard" level at 6% instead of 5%, the Senator and the Congress should express this intent. Finally, we suggested that they

¹ The agency matching formula is dollar-for-dollar on the first 3% of pay and 50 cents on the dollar for the next 2%. In addition, there is a 1% Agency Automatic Contribution for all Federal employees.

engage the Office of Personnel Management (OPM) in this discussion, as OPM is the agency with primary responsibility for FERS and the government-wide "owner" of financial preparedness responsibilities.

While there is research in the private sector which supports the effectiveness of auto features, we indicated that we do not yet have an analysis of the impact of auto-enrollment on TSP deferrals and consequently do not have the factual basis to make any specific recommendations on the draft legislation. Our analysis of auto-enrollment will be done as part of our forthcoming TSP Demographics Report, which is expected to provide some preliminary information (auto-enrollment was introduced in Aug 2010 and data is available through Dec 2011) on the impact of auto-enrollment on the TSP. In order to produce the Demographics Report, key data for 2009-2011 is required from OPM and we are in the process of completing the required approvals and data exchange requirements. We committed to Senator Akaka's staff to study the auto-escalation issue following the completion of the TSP Demographics study (est. Sept 2012).

112TH CONGRESS
2D SESSION

S. _____

To amend subchapter III of chapter 84 of title 5, United States Code, to establish a program under which certain employees are automatically enrolled to increase contributions to Thrift Savings Plan accounts.

IN THE SENATE OF THE UNITED STATES

Mr. AKAKA introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend subchapter III of chapter 84 of title 5, United States Code, to establish a program under which certain employees are automatically enrolled to increase contributions to Thrift Savings Plan accounts.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Save More Tomorrow
5 Act of 2012”.

6 **SEC. 2. SAVE MORE TOMORROW PROGRAM.**

7 Section 8432(b)(2) of title 5, United States Code, is
8 amended—

1 (1) in subparagraph (A), by striking “enrolled
2 to make” and all that follows and inserting the fol-
3 lowing: “enrolled to—

4 “(i) make contributions under subsection (a) at
5 the default percentage of basic pay; and

6 “(ii) increase the percentage of basic pay con-
7 tributed under subsection (a) by the eligible indi-
8 vidual by 1 percent each year beginning in the first
9 year following the year in which the eligible indi-
10 vidual began making contributions under clause (i)
11 occurred and each year thereafter for not less than
12 a total of 3 years (which the Executive Director
13 shall establish by regulation).”; and

14 (2) in subparagraph (C)—

15 (A) in the matter preceding clause (i), by
16 inserting “or have the contributions of the indi-
17 vidual automatically increased” after “auto-
18 matically enrolled”;

19 (B) in clause (i), by inserting “or an in-
20 crease in contributions under subparagraph
21 (A)(ii)” after “pursuant to automatic enroll-
22 ment”; and

23 (C) in clause (ii), by inserting “or an auto-
24 matic increase in contributions under subpara-
25 graph (A)(ii)” after “automatic enrollment”.