

# Mutual Fund Window Option

# Background

- Thrift Savings Plan Enhancement Act of 2009
- May 2014 memo
  - Industry offerings, participant interest, cost & operational concerns
- Additional information requested
  - MFW impact on account retention, fund screening concerns
- Fiduciary decision
  - E.D. Recommendation: Conceptual support – Start planning

# Overview



- Results of additional research
- Operational concerns
- Recommendation
- ETAC input

# What We Knew

- 45% of participants who separated employment in 2012 withdrew their entire account within the next year. These withdrawals totaled \$10 billion in 2013<sup>1</sup>
- Age-based (59 ½) withdrawals represented another \$2 billion in withdrawals

---

<sup>1</sup> TSP recordkeeping data

# What We Learned

We conducted a survey of 30,000 of the 96,500 participants taking a **post-separation** withdrawal in the first half of 2014



36% - life event



27% -  
withdrawal  
flexibility



23% -  
investment  
flexibility

# What We Learned

We also surveyed all 10,200 participants who took an **age-based** withdrawal in the first half of 2014



52% - life event



30% -  
withdrawal  
flexibility



23% -  
investment  
flexibility

# Observations

- Plan-design opportunities
  - More flexible withdrawal options
  - Improved guidance and advice
  - Greater investment flexibility

Hypothetical – If MFW had existed in 2012 and improved retention by just 10%, \$1.2 billion that was withdrawn in 2013, would still be at TSP. This would have equated to much lower fees for the directly affected participants + slightly lower administrative costs for all participants.

# Fund Screen

- Not generally used by other defined contribution plan sponsors
- MFW providers typically don't have the ability to mask funds on a plan-by-plan basis
- Expense screen drastically limits the sectors we are most interested in making available
  - Socially responsible
  - Real Estate
  - Emerging markets

# Fiduciary Issues

- FERSA protects plan fiduciaries from investment decisions made by participants
- The Board is required to select investments suitable for retirement accounts and with low administrative costs

# Fiduciary Issues

- The Board must balance:
  - Participant desire for increased investment choice
  - The impact on MFW choice if a cost screen is applied, and
  - The requirement that funds in the MFW be suitable for accumulating retirement funds

# Other Issues

- Platform integration
  - The RFP will require integration with the TSP recordkeeping system
- Implementation Costs
  - As with other new programs, the implementation cost will be spread across all participants
  - Additional fee for those accessing the MFW
- Education
  - We will detail the pros/cons of the MFW and that it is suitable for the sophisticated/do-it-yourself investor

# Summary

- The MFW:
  - Is responsive to participant demand
  - Allows greater investment choice
    - Allows participants to invest according to their conscience
  - Fills a small gap in TSP plan design
    - Addresses the needs of the do-it-yourself investor
    - Access to emerging markets and niche funds
  - Protects the simplicity of the TSP
  - Addresses one of the key reasons participants are leaving the plan for higher cost alternatives

# Recommendation

- Board adopt a resolution conceptually supporting creating a MFW
- Establish team to create detailed implementation plan, including costs, risks and schedule, and
- Deliver the plan in 2015

# Questions

