

## SMART SAVINGS ACT

JUNE 30, 2014.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ISSA, from the Committee on Oversight and Government Reform, submitted the following

## R E P O R T

[To accompany H.R. 4193]

[Including cost estimate of the Congressional Budget Office]

The Committee on Oversight and Government Reform, to whom was referred the bill (H.R. 4193) to amend title 5, United States Code, to change the default investment fund under the Thrift Savings Plan, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

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### COMMITTEE STATEMENT AND VIEWS

#### PURPOSE AND SUMMARY

The Smart Savings Act, H.R. 4193, would change the default investment fund for Thrift Savings Plan (TSP) participants from the

G Fund to an age-appropriate asset allocation fund, consistent with a recommendation from the Federal Retirement Thrift Investment Board (FRTIB). The change will help ensure TSP participants are better prepared for retirement, by investing their contributions in a fund designed to yield higher returns over the course of their career.

#### BACKGROUND AND NEED FOR LEGISLATION

The TSP is a tax-deferred defined contribution plan available to federal workers, administered by the FRTIB. The TSP is the Nation's largest pension program, with more than 4.6 million participants and assets of more than \$400 billion.<sup>1</sup> The TSP provides participants a choice of investment options, including 5 core funds: the Government Securities Investment Fund (G Fund), the Fixed Income Index Investment Fund (F Fund), the Common Stock Index Investment Fund (C Fund), the Small Cap Stock Index Investment Fund (S Fund), and the International Stock Index Investment Fund (I Fund). Participants may also invest in the Lifecycle Funds (L Funds), which are tied to a target withdrawal date and invested exclusively in the G, F, C, S, and I Funds.

Employees who are covered by the Federal Employee Retirement System (FERS) receive contributions from their employing agency. For FERS employees, federal agencies contribute an amount equal to 1 percent of the employee's base pay to the TSP, and also match FERS employee contributions dollar-for-dollar on the first 3 percent of employee contributions, and at 50 percent on the next 2 percent.

The Federal Retirement Reform Act of 2009<sup>2</sup> enabled auto-enrollment of new federal civilian workers into the TSP. Contributions for auto-enrolled TSP participants are defaulted into the G Fund. Participant contributions remain invested in this fund until the worker makes an election to reallocate his or her account balance or direct future contributions into one or more of the other funding options available through the TSP.

As a result, since August 2010 new hires have automatically had 3 percent of base salary contributed to the TSP, unless an individual worker elects not to participate, or specifies a different contribution rate. As a result, TSP participation rates are now highest among newly hired employees, with participation at 97.9 percent among workers with less than two years of tenure, compared to an overall FERS participation rate of 86.8 percent.<sup>3</sup> Newly-hired participants also have the greatest portion of their contributions allocated to the G Fund, nearly 61 percent,<sup>4</sup> which the FRTIB Executive Director suggests is due in part to inertia.<sup>5</sup> The lowest-paid participants have approximately 60 percent allocated to the G

<sup>1</sup>Data from the Director of External Affairs, Federal Retirement Thrift Investment Board (March 31, 2014).

<sup>2</sup>P.L. 111-31 (2009).

<sup>3</sup>Memorandum from Greg Long, Executive Director, Federal Retirement Thrift Investment Board, to Board Members, Kennedy, Bilyeu, Jones, McCray, and Jasien, *L Fund Default Investment Option*, December 16, 2013.

<sup>4</sup>Federal Retirement Thrift Investment Board, *2012 Annual Report of the Thrift Savings Plan*, December 30, 2013.

<sup>5</sup>Memorandum from Greg Long, Executive Director, Federal Retirement Thrift Investment Board, to Board Members, Kennedy, Bilyeu, Jones, McCray, and Jasien, *L Fund Default Investment Option*, December 16, 2013.

Fund, as compared to the highest paid, who allocated 33 percent to the G Fund.<sup>6</sup>

Enrolling new workers in an age-appropriate L Fund would allow their contributions to be allocated across equity and bond markets, providing the sort of age-appropriate asset diversification recommended by most retirement experts. While the L Funds expose participants to market risk, they address such risk in their design. According to the FRTIB Executive Director, had the L Funds been the default investment option since the beginning of automatic enrollment, participants would have achieved greater returns than by investing solely in the G Fund.<sup>7</sup> Lifecycle funds are increasingly popular among private sector defined contribution plans, and are often used by such plans as default investments.

On December 16, 2013, the FRTIB adopted a motion, without objection, directing its Executive Director to pursue legislation to make an age-appropriate L Fund the default option for TSP contributions by FERS participants.<sup>8</sup> The change was unanimously supported by the Employee Thrift Advisory Council.

H.R. 4193 implements the FRTIB recommendation that age-appropriate L Funds be the default option for TSP contributions for new participants. Participants who conclude they do not want to assume market risk will continue to have the ability to change their investment allocation, including e.g., transferring their entire account balance to the G Fund.

The International Federation of Professional & Technical Engineers endorsed the bill, describing H.R. 4193 as “a responsible step forward in helping federal workers plan and save for retirement.”

#### LEGISLATIVE HISTORY

The TSP was established by the Federal Employees’ Retirement System Act of 1986 (FERSA)<sup>9</sup> as a tax-deferred retirement savings plan for federal civilian workers. As mentioned above, The Federal Retirement Reform Act of 2009<sup>10</sup> provided for automatic enrollment in the TSP of new federal civilian workers.

#### SECTION-BY-SECTION

##### *Section 1. Short title*

The short title of the bill is the “Smart Savings Act.”

##### *Section 2. Thrift Savings Plan default investment fund*

Changes the default investment fund for civilian Thrift Savings Plan participants from the G fund to an age-appropriate asset allocation fund. The G fund invests exclusively in a nonmarketable short-term U.S. Treasury security issued to the Thrift Savings Plan. The earnings come from interest income on the security. The Thrift Savings Plan offers age-appropriate asset allocation funds, currently known as the Lifestyle or (L) Fund(s), designed to auto-

<sup>6</sup>Federal Retirement Thrift Investment Board, *2012 Annual Report of the Thrift Savings Plan*, December 30, 2013.

<sup>7</sup>Memorandum from Greg Long, Executive Director, Federal Retirement Thrift Investment Board, to Board Members, Kennedy, Bilyeu, Jones, McCray, and Jasien, *L Fund Default Investment Option*, December 16, 2013.

<sup>8</sup>Minutes of the Meeting of the Board Members, Federal Retirement Thrift Investment Board, December 16, 2013.

<sup>9</sup>P.L. 99-335 (1986).

<sup>10</sup>P.L. 111-31 (2009).

matically address an individual's changing asset allocation needs and associated risk as they approach retirement.

The bill applies to civilian employees enrolling in the Thrift Savings Plan on or after the date the Executive Director of the Federal Retirement Thrift Investment Board issues implementing guidance. Such guidance must be issued no later than nine months after the date of enactment.

#### EXPLANATION OF AMENDMENTS

No amendments were offered to H.R. 4193.

#### COMMITTEE CONSIDERATION

On March 12, 2014, the Committee met in open session and ordered reported favorably the bill, H.R. 4193, by voice vote, a quorum being present.

#### APPLICATION OF LAW TO THE LEGISLATIVE BRANCH

Section 102(b)(3) of Public Law 104–1 requires a description of the application of this bill to the legislative branch where the bill relates to the terms and conditions of employment or access to public services and accommodations. This bill would change the default investment fund for TSP participants from the G Fund to an age-appropriate asset allocation fund, consistent with a recommendation from the Federal Retirement Thrift Investment Board. Legislative branch employees and their families, to the extent that they are otherwise eligible for the benefits provided by this legislation, have equal access to its benefits.

#### STATEMENT OF OVERSIGHT FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE

In compliance with clause 3(c)(1) of rule XIII and clause (2)(b)(1) of rule X of the Rules of the House of Representatives, the Committee's oversight findings and recommendations are reflected in the descriptive portions of this report.

#### STATEMENT OF GENERAL PERFORMANCE GOALS AND OBJECTIVES

In accordance with clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee's performance goals and objectives are reflected in the descriptive portions of this report.

#### DUPLICATION OF FEDERAL PROGRAMS

No provision of H.R. 4193 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

#### DISCLOSURE OF DIRECTED RULE MAKINGS

H.R. 4193 requires the Executive Director of the Federal Retirement Thrift Investment Board to develop implementing guidance within nine months of the date of enactment of the bill.

## FEDERAL ADVISORY COMMITTEE ACT

The Committee finds that the legislation does not establish or authorize the establishment of an advisory committee within the definition of 5 U.S.C. App., Section 5(b).

## UNFUNDED MANDATE STATEMENT

Section 423 of the Congressional Budget and Impoundment Control Act (as amended by Section 101(a)(2) of the Unfunded Mandate Reform Act, P.L. 104-4) requires a statement as to whether the provisions of the reported include unfunded mandates. In compliance with this requirement the Committee has received a letter from the Congressional Budget Office included herein.

## EARMARK IDENTIFICATION

H.R. 4193 does not include any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

## COMMITTEE ESTIMATE

Clause 3(d)(2) of rule XIII of the Rules of the House of Representatives requires an estimate and a comparison by the Committee of the costs that would be incurred in carrying out H.R. 4193. However, clause 3(d)(3)(B) of that rule provides that this requirement does not apply when the Committee has included in its report a timely submitted cost estimate of the bill prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act.

## BUDGET AUTHORITY AND CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

With respect to the requirements of clause 3(c)(2) of rule XIII of the Rules of the House of Representatives and section 308(a) of the Congressional Budget Act of 1974 and with respect to requirements of clause (3)(c)(3) of rule XIII of the Rules of the House of Representatives and section 402 of the Congressional Budget Act of 1974, the Committee has received the following cost estimate for H.R. 4193 from the Director of Congressional Budget Office:

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, May 7, 2014.*

Hon. DARRELL ISSA,  
*Chairman, Committee on Oversight and Government Reform, House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4193, the Smart Savings Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Santiago Vallinas.

Sincerely,

DOUGLAS W. ELMENDORF.

Enclosure.

*H.R. 4193—Smart Savings Act*

H.R. 4193 would change the default investment fund in the Thrift Savings Plan (TSP) for government employees. Currently, contributions of employees who are enrolled in the TSP, but have not specified where to invest their funds, are automatically invested in the Government Securities Investment Fund. This bill would shift the default fund to a Lifecycle fund with an age-appropriate asset allocation.

CBO estimates that enacting H.R. 4193 would not affect direct spending. The Joint Committee on Taxation (JCT) estimates that there could be a small revenue effect because enacting the bill might change the number of federal employees who choose to contribute to the TSP, thus modifying their total tax liability. Therefore, pay-as-you-go procedures apply. However, JCT estimates that any revenue effects would be negligible.

H.R. 4193 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

The CBO staff contact for this estimate is Santiago Vallinas. This estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.

## CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

**TITLE 5, UNITED STATES CODE**

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**PART III—EMPLOYEES**

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**SUBPART G—INSURANCE AND ANNUITIES**

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**CHAPTER 84—FEDERAL EMPLOYEES' RETIREMENT SYSTEM**

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**SUBCHAPTER III—THRIFT SAVINGS PLAN**

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**§ 8438. Investment of Thrift Savings Fund**

(a) \* \* \*

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(c)(1) \* \* \*

[(2) If an election has not been made with respect to any sums in the Thrift Savings Fund available for investment, the Executive Director shall invest such sums in the Government Securities Investment Fund.]

(2)(A) *Consistent with the requirements of subparagraph (B), if an election has not been made with respect to any sums available for investment in the Thrift Savings Fund, the Executive Director shall invest such sums in an age-appropriate target date asset allocation investment fund, as determined by the Executive Director. Such investment fund shall consist of any of the funds described in subsection (b).*

(B) *If an election has not been made by an eligible member under section 8440e with respect to any sums available for investment in such member's Thrift Savings Fund account, the Executive Director shall invest such sums in the Government Securities Investment Fund.*

\* \* \* \* \*

**§ 8439. Accounting and information**

(a) \* \* \*

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(d)(1) Each employee, Member, former employee, or former Member who elects to invest in any investment fund or option under this chapter, other than the Government Securities Investment Fund, shall sign an acknowledgement prescribed by the Executive Director which states that the employee, Member, former employee, or former Member understands that an investment in any such fund or option is made at the employee's, Member's, former employee's, or former Member's risk, that the employee, Member, former employee, or former Member is not protected by the Government against any loss on such investment, and that a return on such investment is not guaranteed by the Government.

(2) *Prior to enrollment in the Thrift Savings Plan, an individual covered by section 8438(c)(2)(A) shall sign the risk acknowledgment described under paragraph (1).*

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**SUBCHAPTER VII—FEDERAL RETIREMENT THRIFT INVESTMENT MANAGEMENT SYSTEM**

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**§ 8472. Federal Retirement Thrift Investment Board**

(a) \* \* \*

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(g)(1) \* \* \*

(2) Except in the case of investments [required by section 8438 of this title to be invested in securities of the Government] under section 8438(c)(2)(B), the Board may not direct the Executive Director to invest or to cause to be invested any sums in the Thrift Sav-

ings Fund in a specific asset or to dispose of or cause to be disposed of any specific asset of such Fund.

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