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Thrift Plans Move One Step Closer to Adding Funds

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President Barack Obama is expected to sign legislation soon that could crack open a \$213.5 billion market with more than 4 million participants to mutual funds.

The legislation would allow the creation of a mutual fund window in the federal Thrift Savings Plan (TSP), which covers the military and civilians, including members of Congress. But for now that window still remains closed to funds hoping to tap this large retirement pool.

The mutual fund window survived a legislative hurdle when the U.S. House and Senate approved it as part of an update to the TSP. The update to the plan is part of an unrelated tobacco bill that is "on its way to the president for signing," says Tom Trabucco, spokesman for the Federal Retirement Thrift Investment Board. That board is an independent government agency established to administer the TSP. The board holds the authority to decide whether or not to create a mutual fund window.

That "would mean ultimately seeking a vendor to operate a mutual fund window for the TSP," Trabucco says.

But the other TSP upgrades — automatic enrollment for new employees into the TSP, employer matching contributions for those new employees, a Roth IRA option and allowing surviving spouses of TSP holders to inherit the account — will take first priority over a mutual fund window, Trabucco says.

"There are no immediate plans to pursue the mutual fund window at this time," he says.

An earlier House version of the bill drew concern from the Employee Thrift Advisory Council, which advises the Federal Retirement Thrift Investment Board and its executive director on investment policies and administration of the TSP. That concern centered on requiring the board to adopt the mutual fund window and charging the board with having to approve investments for the window. The final legislative language instead makes adoption of the window non-mandatory and removes the board from the role of approving investments.

There was also concern over whether mutual funds were even appropriate investments to offer in light of market volatility. Though having the fund window survive into the final legislation represents a small victory for funds, unions are taking a wait-and-see approach before getting behind the plan.

James Sauber, chair of the Employee Thrift Advisory Council and chief of staff of the National Association of Letter Carriers, says his group is awaiting a study that the board will conduct on the potential cost of adding a window and the types of funds that could be included.

"Right now we are open-minded about it but have not taken a decision on whether to support it or not," he says.

Currently, the TSP is made up of five broad-based index funds and five lifecycle funds, all managed by **Barclays Global Investors**. The funds, by law, are required to track major indexes. One core fund, the Government Securities Investment Fund (G fund), is managed internally and consists of Treasury securities.

Sauber has said that one concern from his union about a mutual fund window is the potential to undermine the TSP structure of simple, low-cost investment choices. Another concern is making sure that those employees who do opt for mutual funds "pay for their own expenses and that this does not get shoved onto other people in the plan," he said.

One thing that may work in funds' favor is a study conducted by the Federal Retirement Thrift Investment Board in December. That study showed that 39% of employee respondents agreed that their TSP would be improved by offering a broad spectrum of retail mutual funds.

Niels Holch, executive director of the Coalition of Mutual Fund Investors, says it's a good idea to increase the investment choices for federal employees. Holch was enrolled in a TSP when he served as chief of staff to Sen. Mitch McConnell (R-Ky.) from 1987 to 1991 and had only three investment options. But if the TSP were to be expanded to mutual funds the board should "consider some kind of increased employee education."

Holch also sees an opportunity for funds that can show that their managers are especially strong in beating their indexes.

"If you can say to federal employees that you are providing value beyond an index, I think this may be a good opportunity for a number of fund families," he says.

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