Government Executive

Obama Signs TSP Bill Into Law

By Kellie Lunney

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It's official: New federal employees automatically will be enrolled in a more diverse, age-appropriate retirement fund rather than the safer government securities offering.

President Obama signed the bipartisan Smart Savings Act into law on Thursday, along with a raft of other bills.

The law changes the default enrollment fund in the Thrift Savings Plan for new hires from the G Fund to the lifecycle (L) funds, which are designed to move investors to less risky portfolios as they near retirement.

TSP launched a program in August 2010 that automatically signs up all new civilian hires to allocate 3 percent of their basic pay to the G fund, unless they choose to end their contributions or change the amount. Participants also receive a 3 percent match and a 1 percent contribution from their agencies, unless they opt out of automatic enrollment. The G Fund is the most stable investment of the TSP's options, while the L funds are a mix of the TSP's G, F, C, S and I offerings, and are crafted to help yield higher returns through diversity.

The law will only apply to new federal employees who are auto-enrolled in the TSP. It will not affect TSP participants who are currently auto-enrolled.

The Federal Retirement Thrift Investment Board, which administers the TSP, has to issue rules on implementation before the changes take effect. That likely will happen in October 2015, said Kim Weaver, director of external affairs at the board.

The board last year requested the legislation to switch the default fund from the G Fund to the lifecycle funds. The Employee Thrift Advisory Council, which advises the TSP board on investment policies and the plan's administration and is made up of representatives from employee organizations, unions and the uniformed services, endorsed the legislative proposal in November 2013 after initially opposing it.

The retirement plan's board has found that while automatic enrollment has increased TSP participation, new government hires under the age of 29 have too much money invested in the G Fund -- likely a result of auto-enrollment's G Fund default option. The government securities offering, while traditionally very stable, also does not yield very high returns.

In a move that could perhaps put some detractors of the switch at ease, FRTIB announced last year the lifecycle funds would allocate a larger proportion of their total configuration to the G Fund. The board contracted a consulting firm to review the plan's L Funds allocations and opted to make the change in light of the findings.

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