FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

FRTIB Opposes S. 2791

November 2019

Highlights:

- S. 2791 discriminates against 5.8 million employees, retirees, and servicemembers by restricting their ability to direct their money and save for their retirement. This prohibition does not apply to any other 401(k) or IRA that the more than 60 million Americans use to save for their retirement.
- As currently drafted, S. 2791 would *eliminate* the TSP's ability to offer an international stock index fund, in contradiction of existing law; the bill would require the Board to terminate the I Fund's investment in its *current* index as no index meets the requirements of the bill.
- Given the recent performance of emerging markets, the bill would deprive the 5.8 million TSP participants of a significant opportunity for investment return and the benefits of diversification.
- S. 2791 prohibits TSP investment in issuers listed on securities exchanges in which the Public Company Accounting and Oversight Board (PCAOB) has not issued an audit inspection or for which the PCAOB is prevented from conducting such inspections. Four countries, comprising over 5% of the current MSCI EAFE Index, would be excluded by S. 2791. (See below).
    - Over 20% of the MSCI ACWI ex-US IMI index would be excluded.
- There is no international index available that meets the criteria that it be a "commonly recognized index" and excludes the countries highlighted below.
- All ten of the largest publicly traded U.S. companies, all ten of the top Federal contracts and all of the six largest target date fund providers include access to emerging markets.
    - The TSP would be an outlier amongst retirement savings plans if it does not offer the ability to invest in Canada and emerging markets.

Background on the Indexes:

- The hallmark of the TSP is its simple design. It is comprised of five core funds: the G Fund (Government Securities Investment Fund), F (Fund Fixed Income Index Investment Fund), C Fund (Common Stock Index Investment Fund), S Fund (Small Cap Stock Index Investment Fund) and I Fund (International Stock Index Investment Fund).

- For the I Fund, the Board is statutorily required to "select an index which is a commonly recognized index comprised of stock the aggregate market value of which is a reasonably complete representation of the international equity markets excluding the United States equity markets."

- The I Fund benchmark is currently the MSCI EAFE (Europe, Australasia and Far East) Index. In 2017, the Board voted to move to the MSCI ACWI ex. U.S. IMI Index (MSCI All Country World ex USA Investable Market Index). That change has not yet occurred.

- Moving from the MSCI EAFE Index, which represents 58% of the international equity market, to the MSCI ACWI ex USA IMI Index, which represents 99% of the international equity market, is a more representative benchmark and better fulfills the statutory requirement of a complete representation of the international equity markets.
    - MSCI EAFE includes:
        - 21 developed markets
        - Large- and mid-cap stocks
        - 900+ companies
    - MSCI ACWI ex. U.S. IMI includes
        - 22 developed + 26 emerging markets
        - Large-, mid-, and small-cap stocks
        - 6,000+ companies

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MSCI Country allocations (as of June 30, 2019):

	MSCI EAFE	MSCI ACWI ex USA IMI
Developed Markets		
Australia	7.1%	4.9%
Austria	0.2	0.2
Belgium	1.0	0.8
Canada	-	6.8
Denmark	1.7	1.2
Finland	1.0	0.7
Israel	0.6	0.5
France	11.4	6.9
Germany	8.8	5.7
Hong Kong	4.0	2.5
Ireland	0.5	0.4
Italy	2.3	1.7
Japan	23.7	16.6
Netherlands	3.6	2.4
New Zealand	0.2	0.2
Norway	0.7	0.6
Portugal	0.2	0.1
Singapore	1.3	1.0
Spain	3.0	1.9
Sweden	2.6	2.1
Switzerland	9.3	5.8
U.K.	16.8	11.4
Emerging Markets		
Argentina	--	0.1
Brazil	--	2.0
Chile	--	0.3
China	--	7.5
Colombia	--	0.1
Czech Rep.	--	0.0
Egypt	--	0.0
Greece	--	0.1
Hungary	--	0.1
India	--	2.5
Indonesia	--	0.6
Korea	--	3.3

Malaysia	--	0.6
Mexico	--	0.7
Pakistan	--	0.0
Peru	--	0.1
Philippines	--	0.3
Poland	--	0.3
Qatar	--	0.3
Russia	--	1.0
Saudi Arabia	--	0.4
South Africa	--	1.5
Taiwan	--	3.0
Thailand	--	0.8
Turkey	--	0.1
UAE	--	0.2
Total Developed	100.0%	74.3%
Total Emerging	0.0%	25.7%
Total Index	**100.0%**	**100.0%**

Key:

Countries highlighted in yellow have prevented PCAOB from inspecting audit work
Countries highlighted in blue are countries in which PCAOB has never conducted an inspection
Information taken from https://pcaobus.org/international/

Background on the TSP

- The Federal Retirement Thrift Investment Board (FRTIB) is an independent Government agency that administers the Thrift Savings Plan (TSP). The FRTIB is managed by a Presidentially appointed five-member Board and an Executive Director chosen by the Board to manage the day to day operations of the Agency.

- The TSP is a retirement savings and investment plan for Federal employees and members of the uniformed services similar to 401(k) plans offered to private sector employees. The money in each TSP account belongs solely to each TSP participant and is not an asset of the U.S. government.

- The TSP is established under the Federal Employees' Retirement System Act of 1986 and is codified primarily under Chapter 84 of title 5, United States Code (USC). By law, the assets in the TSP are held in trust for each individual participant. The TSP is treated as an IRC section 401(a) qualified trust which is exempt from taxation similar to 401(k) plans (see 26 USC § 7701(j)).

- By law, the Board Members and Executive Director serve as fiduciaries legally obligated to act “solely in the interest of the [TSP] participants and beneficiaries” and for the exclusive purpose of providing benefits to participants and their beneficiaries.”

- The law requires the Board to develop investment policies which provide for “prudent investments suitable for accumulating funds for payment of retirement income.”

- It is in the participants’ interest that the Board provide TSP participants with the same opportunities to save for their retirement as are afforded to every other American.