

The Federal Manager

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The Federal Manager (ISBN 0893-8415) is published by the Federal Managers Association, 1641 Prince Street, Alexandria, VA 22314-2818, to inform federal managers of management-related topics, professional development, and legislation affecting them. Statements of fact and opinion are made on the responsibility of the author alone and do not imply an endorsement by the editor, the officers or members of the Federal Managers Association® 2005. All rights reserved. Redistribution or reproduction of any part of this publication is prohibited without written permission. Printed in the U.S.A.

PRESIDENT'S PAGE



*FMA National President
Michael B. Styles*

Bracing for BRAC

On May 13, 2005, the Pentagon released its list of military bases and installations that constitute what it believes to be the excess of defense infrastructure around the world. Overall, the percentage of infrastructure that will be affected falls well below the 25 percent that was speculated before the release of the list. However, the impacts on those 18,000 Federal managers, supervisors and employees expected to lose their jobs and scores of others who will be forced to move, retire, or look for other employment remains a deep concern for those of us in the Federal community.

Since the initial consent to create the latest iteration of the Base Realignment and Closure (BRAC) Commission with the passage of the Department of Defense Authorization bill for fiscal year 2001, the Federal Managers Association (FMA) has maintained that our greatest priority is protecting and defending our country. Now, more than ever, our military readiness depends on the bases, depots, and arsenals across the country. It is essential that we maintain a strong infrastructure and ensure the allocation of necessary resources for military and civilian personnel to carry out the mission of the Department. Moreover, these facilities are currently facing significantly increased workloads based on the need for refurbishing and replenishing equipment that is being utilized in Iraq, Afghanistan, and in the War on Terrorism being conducted throughout the world.

While we are disappointed that a further delay in the BRAC process failed to be authorized by Congress last year – one that we believed was necessary given our military demands abroad – we will continue our effort to ensure that the needs of the war fighter are met. The added challenge to Defense employees brought about by the implementation of the new National Security Personnel System that seeks to change the entire culture of the Department increases the overall burden on Federal employees subjected to base closure or realignment. Employees of the Department are being pulled in so many directions that it seems only appropriate to yield one more demand on the workforce.

Over the next few months, we will continue to provide our input throughout the remainder of the BRAC process. The requirements of the BRAC Commission in complying with the specific timeline for its implementation are as follows:

September 8, 2005: The Commission must transmit to the President a report containing its findings and conclusions based on a review and analysis of the Secretary of Defense's recommendations.

September 23, 2005: The President shall transmit to the Commission and to the Congress, a report containing the President's approval or disapproval of the Commission's recommendations. If the President approves the recommendations, the recommendations are binding 45 legislative days after Presidential transmission or adjournment, unless Congress enacts joint resolution of disapproval.

October 20, 2005: If the President disapproves the Commission's initial recommendations, the Commission must submit revised recommendations to the President.

Nov 7, 2005: The President must approve the revised recommendations and transmit approval to Congress by this date or the process ends. The recommendations become binding 45 legislative days after Presidential transmission or adjournment, unless Congress enacts a joint resolution of disapproval.

April 15, 2006: Commission terminates.

Perhaps the most compelling fact is that much of the workload will be outsourced at a greater expense to the American public with the ultimate loss of our ability to respond expeditiously to the needs of our war fighter. We will do our utmost to ensure that as we move forward these concerns are taken into consideration by our legislators and the agency. ■

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Member-at-Large Annual Dues: \$72

Retired Member-at-Large Annual Dues: \$36

Annual Subscription Rate: \$25

Single Issue Rate: \$7.50

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All materials submitted to *The Federal Manager* should pertain to public service managers. Copy should be double-spaced, no longer than 10 pages. Color photographs, 35 mm color slides, charts, or other illustrations should be included if possible. Text should be submitted on floppy disk, labeled with type of software and name of file. Also include a biography of author.

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TSP to Unveil Lifecycle Funds:

“Investing on Autopilot” Coming Soon

The TSP is preparing to offer Lifecycle Funds later this summer. These funds "will provide participants with professionally designed asset allocations appropriate for their investment time horizons," says TSP Executive Director Gary Amelio. Participants select their time horizons, or when they need the funds, and the TSP does the rest of the work.

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Investing on Autopilot



The funds are professionally designed to blend the current TSP funds to match that horizon, and are maintenance free – they rebalance automatically and adjust to more conservative investments as the time horizon approaches.



Lifecycle Funds continued from page 3

Lifecycle funds have a mix of the current TSP investments including domestic stocks, international stocks, and bonds. The mix is chosen based on the date when you will need to use your money. If that date is a long time from now, the lifecycle fund in which a participant invests will be more heavily weighted toward equities (stocks or stock funds). As the date that a participant needs the money approaches, the allocation will be weighted more heavily toward fixed income or stable value investments (e.g., bonds or bond funds, and Treasury securities).

The assumption underlying lifecycle funds is that participants with longer investment time horizons are able to tolerate more risk while seeking a higher return. The converse also holds, as the funds will automatically adjust to reflect a lower tolerance for risk as participants approach the end of their investment time horizon.

The TSP Lifecycle Funds will invest only in the five funds currently offered by the TSP, and participants will not have to pay any extra fees or expenses to invest in them.

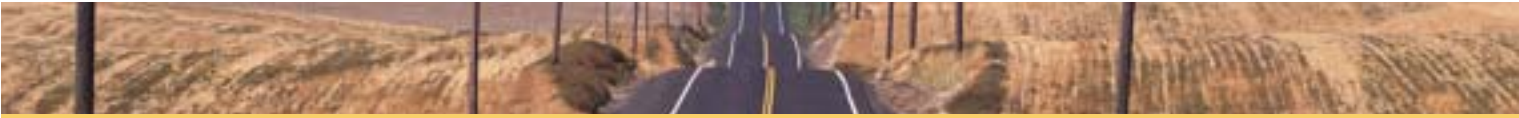
Amelio advocated lifecycle funds

Shortly after taking the reins as the TSP's Executive Director, Mr. Amelio began looking into lifecycle funds for the TSP. Although he concluded that

the TSP "had all the major food groups" of funds, such as government securities, bonds, large and small capitalization stocks, and international stocks, Mr. Amelio believed that lifecycle funds would be an attractive addition. Mr. Amelio, who came to the TSP with over 23 years of private-sector experience in the benefits, tax, and fiduciary industry, remarked that "from an investment perspective, Lifecycle Funds are the only material gap in the TSP and the next logical step in keeping the TSP consistent with the best plan designs in the industry."

There are various reasons for this conclusion. TSP statistics reveal that a significant amount of TSP funds, approximately 40 percent, are invested in the Government Securities Investment (G) Fund. This has coincided with (or occurred perhaps in spite of) a period of substantial gains in the stock market. While the G Fund is risk-free and always earns a positive return, the potential for significant growth is limited, and participants may run the risk of investing too conservatively and ending up with less in retirement funds than they could otherwise accumulate.

The statistics also reveal that many participants – over 50 percent – are invested in only one or two of the TSP Funds. The Fixed Income Index Investment (F) Fund, Common Stock Index Investment (C) Fund, Small Capitalization Stock Index Investment (S) Fund, and International Stock Index Investment (I) Fund all track major



indexes and, thus, are inherently diversified. However, investing solely in one or two of these funds does not take full advantage of the TSP's potential for diversification.

Analysis of the data indicates that some participants appear to be either "chasing" the latest returns or leaving their accounts unattended altogether, never adjusting the allocation of their portfolios. While TSP participation rates significantly exceed the industry average, the evidence suggested that many TSP participants could benefit from the professional asset allocation offered by Lifecycle Funds. "TSP participants are incredibly good savers," said Mr. Amelio, but he also notes that studies show that participants in tax-deferred savings plans do not have the time, interest or knowledge to manage their accounts.

Put Your Investments on Cruise Control

Successful management of a TSP account requires a significant degree of vigilance. First, participants must be familiar with the investment options and understand basic principles of investing, such as risk, return, asset allocation, and investment time horizon. Participants must synthesize these factors and develop an investment strategy that is appropriate to their needs. Participants must then

periodically rebalance their accounts to maintain that strategy, especially in the light of large gains or losses. Finally, participants must consider changes to their asset allocations to assume less risk as they approach their investment time horizon and periodically review and possibly adjust their investment strategy to match changed personal circumstances.

In short, successful management of an account is not an accident. Participants should not ignore their TSP accounts simply because it is a long-term investment.

That is where TSP Lifecycle Funds come into play. Participants will be able to set their TSP investments on "cruise control." Participants make only one decision: "When will I need the money after I leave Federal service." They then choose which Lifecycle Fund, or "L Fund," that most closely matches their time horizon. The funds are professionally designed to blend the current TSP funds to match that horizon, and are maintenance free -- they rebalance automatically and adjust to more conservative investments as the time horizon approaches.

Putting your TSP investments on cruise control does not mean that participants cannot lose money in the Lifecycle Funds. Like the TSP individual funds (with the exception of the G Fund), Lifecycle Funds can have periods of gain and loss. However, while

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...from an investment perspective, Lifecycle Funds are the only material gap in the TSP and the next logical step in keeping the TSP consistent with the best plan designs in the industry.

– Gary Amelio

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Investing on Autopilot

Lifecycle Funds continued from page 5

investing in Lifecycle Funds is not a guarantee against loss and does not eliminate risk, they are a way to diversify an account optimally, based on professionally designed asset allocations. The asset allocations are designed by investment professionals and are carried out automatically, relieving participants of the burdens of worrying about the appropriate investment mix or rebalancing their accounts to maintain their investment strategy.

Which Lifecycle Fund is right for me?

Based on the recommendations of the asset manager, the TSP will offer five Lifecycle Funds:

- L 2040, with a horizon date of 2040;
- L 2030, with a horizon date of 2030;
- L 2020, with a horizon date of 2020;
- L 2010, with a horizon date of 2010; and
- L Income, for participants who are already withdrawing their money or who are just about to begin withdrawals.

For those who have a horizon date that falls in between two of the L Funds, participants may choose the L Fund that is closest to their desired time horizon. For example, if a participant has a time horizon of 2035 or later, he or she should consider selecting the L 2040. Participants with time horizons from 2025 through 2034 should consider selecting the L 2030. Participants who need the money this year or who are currently receiving monthly payments from their TSP accounts should consider the L Income Fund.

Like the individual TSP funds, participants will be able to enter or leave the L Funds when they want. Participants will also be able to move among the L Funds. This provides participants with the flexibility to select a different L Fund or individual TSP fund(s) should their time horizon or investment strategy significantly change.

While participants may invest any portion of their accounts in the L Funds (as well as the individual TSP funds), they are urged to not defeat the purpose of the Lifecycle approach by investing in multiple options. The L Funds are designed to optimize diversification by placing 100 percent of the TSP account in the single L Fund that most closely matches the participant's time horizon. Any other use of the L Funds may result in suboptimal diversification. Although the TSP has decided not to restrict L Fund investments because research shows such restrictions impede participation in the funds, this should not be viewed as an endorsement of investing in multiple options.

Lifecycle rollout imminent

The TSP hired, through competitive procurement, Mercer Investment Consulting, Inc. (Mercer), to develop the asset allocation models for the funds. Mercer has completed the models and its recommendations for the initial allocations, which were approved by the TSP.

The TSP also hired CitiStreet LLP to help devise its communications materials for the Lifecycle Funds, and has budgeted a significant amount of funding for this

extensive education campaign. In fact, participants should be on the lookout in the near future for these materials. Mr. Amelio notes that "experience shows that when lifecycle funds are offered, many participants do not take advantage of them as a result of confusion or insecurity by overwhelming volumes of information." To counter this, the TSP, along with CitiStreet, is developing an education effort that is both focused and sustained.

Naturally, Mr. Amelio is very excited about the prospect of providing Lifecycle Funds to participants. "The Board members and I are convinced that these asset allocation models will be highly valuable for most participants," said Mr. Amelio. Under his watch, the TSP has implemented a number of improvements, including the addition of a toll-free number and a parallel call center, while reducing costs to the TSP participants. "This is another integral part of our ongoing mission to drive services up for TSP participants while driving costs down," said Mr. Amelio. ■

The Federal Retirement Thrift Investment Board was established as an independent agency by the Federal Employees' Retirement System Act of 1986. It is one of the smaller Executive Branch agencies, with just over 100 employees. It was established to administer the Thrift Savings Plan (TSP), which provides Federal employees the opportunity to save for additional retirement security. The TSP is a tax-deferred defined contribution plan similar to a private sector 401(k) plan. The TSP is one of the three parts of the Federal Employees' Retirement System (FERS). To learn more about the TSP or find answers to questions about how it works, visit the TSP Web site at www.tsp.gov.



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