Testimony of James W. Sauber, Chairman of the Employee Thrift Advisory Council to the House Sub-Committee on the Federal Workforce and Agency Organization regarding "Adding a Real Estate Investment Trust (REIT) Index Option to the Thrift Savings Plan: Considering the Views and Advisory Role of the Employee Thrift Advisory Council (ETAC)"

April 26, 2006

Thank you Chairman Porter and Members of the Sub-Committee for this opportunity to present the views of the Employee Thrift Advisory Council about the proposed addition of a Real Estate Investment Trust (REIT) index fund to the federal government's Thrift Savings Plan.

My name is James Sauber. I am the chief of staff to the President of the National Association of Letter Carriers, William H. Young, and I serve as chairman of the Employee Thrift Advisory Council or ETAC. ETAC was created by the Federal Employees Retirement System Act of 1986 (FERSA) to advise the Federal Retirement Thrift Investment Board on the operations and investment policies of the Thrift Savings Plan (TSP).

I have been actively involved with ETAC and the TSP since its creation in 1987. In fact, I have attended virtually every ETAC meeting over the past 19 years, first as an aide to ETAC's first Chairman, former NALC President Vincent Sombrotto, and then as NALC's designated representative on the Council. I was elected to serve as ETAC's chair in September 2003.

The Advisory Council is comprised of the designated representatives of 15 organizations identified by the FERSA law (as amended). I have attached a roster of the current members of ETAC to this testimony. As you will see, my colleagues and I represent the full range of federal employees -- active and retired, postal and federal, civilian and military -- who participate in the TSP.

ETAC is structured like many other federal government advisory councils. In this case, it is designed to give the top management of the Thrift Board direct input and feedback on issues related to the workings of the Thrift Savings Plan. Under our charter, the Board's staff provides administrative assistance to the Council in order to facilitate our meetings and to aid our organizations in the performance of our function. In practice, that has meant working with the Board's Director of External Affairs, a position that has been held by Thomas Trabucco since the creation of the TSP. But it has also included interaction with the Board's legal staff from time to time.

The ETAC Resolution

I am here today to explain why the Employee Thrift Advisory Council took the unusual step of adopting a resolution in opposition to the proposal to add a REIT Index Fund to the TSP. It is unusual because, historically, the Congress, the Thrift Board and ETAC have worked together to enact numerous improvements in the TSP. Whether it was the creation of the S and I Funds or elimination of the need for Open Seasons, we have supported nearly every bill ever presented to Congress designed to improve the TSP.

I want to say at the outset that it gives nobody on the Council pleasure to oppose a proposal that you and many of your colleagues in Congress have co-sponsored. This Sub-Committee and Chairman Davis's full Committee have a long history of bi-partisan

cooperation on matters affecting the TSP. This cooperation has led to steady improvements in a vitally important benefit program for federal employees. I know that you and your colleagues believe that a REIT Fund would be good for federal employees who participate in the TSP. That being said, the members of ETAC have not yet reached the same conclusion. There are two major reasons for this.

First, we are reluctant to support the addition of a REIT fund over the unanimous objections of the TSP's legislated fiduciaries -- the members of the Federal Retirement Thrift Investment Board. We believe this would set a bad precedent for the consideration of future new funds. Such a precedent is important because, in our view, the addition of one sector fund will lead groups representing other sectors to seek "equitable" access to the TSP's pool of investment capital. The investment policy of the TSP would become more politicized, the cost and complexity of the TSP would increase and the participation of federal employees in the TSP would likely suffer.

Second, we are equally reluctant to add a new fund option to the TSP, whether it's a REIT fund or any other kind of fund, before a complete and independent analysis of its merits is undertaken. In the case of REITs, we know that returns on REIT shares have been excellent in recent years. Indeed growth in the sector has led to a growing number of REITS in the S&P 500 and the Wilshire 4500, which means TSP participants increasingly are already benefiting from them by investing in the C and S Funds. But that success may not necessarily warrant creating a special fund for just 170-180 REIT companies that are included in the 5,000 companies that make up those indices.

REIT funds are a relatively new option for defined contribution retirement plans. Indeed, most private sector 401(k) plans do not offer them. The vast majority of REIT funds have been created in the past 5–10 years and only 10-15 percent of 401(k) plans offer a REIT fund at present (according to widely available surveys). And while a number of well-known, large companies have added a REIT fund to their 401(k) plans in recent years, those plans tend to offer 10, 15 or even 20 different investment options that are much narrower in scope than the five broad-based index funds offered by the TSP. In such private plans, a REIT fund might make sense. We are not sure that is the case with the Thrift Savings Plan.

Before a decision is made, the TSP's fiduciaries and independent experts should thoroughly assess these and other relevant factors as well as the results of the research commissioned by the National Association of Real Estate Investment Trusts (NAREIT) that was presented to this Sub-Committee a year ago.

I can assure this Sub-Committee that should the Thrift Board's Investment Consultant recommend the addition of a REIT fund to the TSP after a thorough study, the members of ETAC would certainly reconsider our position.

Process and Information

The discussions of the Council concerning the proposal to add a REIT Fund to the TSP began long before Chairman Porter introduced H.R. 1578. In our March 24, 2004 meeting, I reported that I had been contacted by NAREIT about the idea of a REIT Fund in the TSP and that other members of the Council had been contacted as well. Although trade associations had often lobbied Members of Congress and the Thrift Board in the

past, it was the first time in my memory that such a group had directly contacted members of ETAC. Nevertheless, I expressed a willingness to listen to what they had to say.

At our November 9, 2004 meeting, I offered to set up a group meeting for interested members of ETAC with NAREIT's representatives. That meeting was held on January 14, 2005 and was attended by members from the American Federation of Government Employees, the American Postal Workers Union, the Department of Defense, Federally Employed Women, the National Association of Letter Carriers, the National Association of Postal Supervisors, NARFE, the National Federation of Federal Employees and the Senior Executives Association. We listened to NAREIT's presentation and asked a lot of questions.

At my request, the Thrift Board distributed its January 2005 staff analysis of the NAREIT presentation to every member of ETAC to help inform our subsequent discussions.

At our May 4, 2005 meeting we discussed the REIT Fund proposal at some length. I reported on the statement I had delivered to the Sub-Committee for the April 19, 2005 hearing entitled "Real Estate Investment Trusts (REITS): Can They Improve the Thrift Savings Plan," which followed the introduction of H.R. 1578 on April 12, 2005. Some but not all members expressed fears that the process for setting the TSP's investment policy was being politicized by the role of NAREIT in this process.

The discussion of REITS continued at our next meeting on October 14, 2005. At that meeting Executive Director Gary Amelio reported that a Chicago-based investment consulting firm, Ennis Knupp, had been retained by the Thrift Board to perform a number of tasks, including an analysis of possible additions or subtractions to the TSP's fund offerings. We presume that this Investment Consultant will consider REIT funds in the context of its overall review of possible investment options for the TSP.

Mr. Chairman, the point I want to emphasize is that our resolution emerged after nearly two years of discussion. Over those two years, several themes emerged:

- There was a consensus that no new fund should be added to the TSP until the Plan's fiduciaries received an independent assessment;

- In the absence of new compelling information, there was little if any support among ETAC organizations for a REIT Fund;

- There was a general concern that adding a sector fund like a REIT fund might significantly contradict and effectively alter the basic plan design of the TSP, which offers broad-based index funds, and lead to the proliferation of narrow sector funds that would undermine the TSP's core strengths: its low cost and its simplicity; and

- That the Federal Retirement Thrift Investment Board and its Executive Director also opposed a REIT fund at this time.

All these themes are reflected in the resolution we adopted on March 7, 2006.

I want to conclude with one final point. Our view is that both Congress and the Federal Retirement Thrift Investment Board share responsibility for adopting changes in the TSP's investment policies. FERSA clearly gives the five Presidential appointees to the Thrift Board and its Executive Director the role of developing and establishing the investment policy of the TSP. Any changes in that policy, however, must be enacted by Congress. In adopting our resolution, ETAC is not arguing that Congress cannot change the investment options on its own. However, we do think that the TSP works best when Congress and the FRTIB reach a consensus before making any significant change in the law. We urge you to keep this in mind as you contemplate further action on H.R. 1578.

Thank you for the opportunity to present our views to this hearing. I would be happy to answer any of your questions.