



Thrift Savings Plan

P.O. Box 385021

Birmingham, AL 35238

February 2009

Dear TSP Participant:

It has been a difficult year for all of us invested in the stock and bond markets. The wild ride of the last few months, in particular, has left many investors with a sinking feeling about their investments and their retirement prospects. Those of us responsible for the day-to-day administration of the Thrift Savings Plan understand that sentiment — we are TSP participants just like you. But we also see reason for optimism as we move forward into the New Year.

There is good news in several areas. The TSP remains the platinum standard of retirement savings programs. Even with the challenges in today's economy, the number of Federal employees who depend on the TSP to safeguard their retirement savings has grown to over 4 million. Our mission to improve services while keeping costs low continues to be very successful. With net costs currently at 1.9 basis points, or 19 cents for every \$1,000 invested in the plan, the TSP is far more efficient than the typical 401(k) plan offered in the private sector. These low costs translate directly to better returns for you.

In this volatile economy, you have options in the TSP that allow you to take on only as much risk as you want. If you need to safeguard your account completely against loss, the TSP offers a safe haven in the G Fund. If you have a long-term goal (and most participants do), today's economy may be an opportunity to buy into stocks and bonds while prices are low. The L Funds, our professionally allocated mix of investments using all of the TSP funds, offer an investment allocation that is appropriate for when you'll need your money in retirement. In the L Funds, your assets are rebalanced daily, becoming more conservative as your retirement date approaches.

In fact, since the L Funds were introduced in 2005, the TSP has maintained the original L Fund investment allocations, in spite of the lure of possible higher returns through increased exposure to stocks. In the private sector, however, some financial firms adjusted their funds — including those for near-term retirement — by increasing their stock allocations in order to reap the higher returns expected by their clients. This strategy worked while the markets were going up. However, this past year, returns in those same funds have plummeted. What's the impact?

As of December 31, 2008, the TSP's L 2010 Fund's year-to-date return was -10.53%. Several of the country's largest and most well-known mutual fund companies offer funds very similar to the L 2010 Fund which have declined well over 20% in value during this same period. The TSP funds designed for near-term retirees have retained more of their value because the TSP did not succumb to the temptation to chase those higher equity returns.

In 2008, we made several changes to the services you receive, beginning early in the year, when we introduced the new annual participant statement. Your second annual statement is enclosed with this letter (unless you asked us not to send it). We also introduced the custom user ID — an ID you create yourself on the TSP Web site to use instead of your 13-digit account number for logging into the Web site. Finally, we instituted a policy that the first two interfund transfers per month are unrestricted with unlimited transfers into the G Fund for the remainder of the month. This change reduced expenses for all TSP participants.

There are more service changes in the works for 2009. We are initiating efforts to improve the design and functionality of the Web site. We are also working on ways to keep your account more secure. You'll hear more about these initiatives as we get closer to fully implementing them.

Near the end of 2008, we conducted a survey of TSP participants to help us further define a program of improvements to meet participants' needs. A summary of the results of this survey is enclosed with this letter.

Finally, the IRS announced new elective deferral and catch-up contribution limits last October. In 2009, you can elect to contribute \$16,500 to your TSP account — a \$1,000 increase over 2008. In addition, if you are age 50 or older, you can contribute \$5,500 in additional catch-up contributions — an increase of \$500 over the 2008 limit. Make the most of the TSP and act today. The more you contribute, and the sooner you do it, the more secure you'll be in retirement!

Sincerely,

A handwritten signature in black ink, appearing to read 'GTL', written over a light blue horizontal line.

Gregory T. Long
Executive Director

Enclosures