Description of document:	**Federal Retirement Thrift Investment Board (FRTIB) report regarding forfeitures and lost participants 09-November-2006**
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Title of Document	Memorandum for Board Members Saul, Fink, Whiting, Sanchez and Duffy
Source of document:	FOIA Officer Federal Retirement Thrift Investment Board 1250 H Street, N.W. Washington, D.C. 20005-5985

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

September 8, 2008

I am responding to your request, dated August 4, 2008, to the Federal Retirement Thrift Investment Board (Agency) in which you made a request for records under the Freedom of Information Act (FOIA), 5 U.S.C. 552, as amended. Your request and our response are set forth below:

REQUEST

A copy of all records at FRTIB concerning the TSP Performance Audit Objective of "Review of Abandonment Policies" described in the enclosure of the February 2007 Board meeting minutes.

RESPONSE

There are no records responsive to your request as this objective was not reviewed during this audit. See page 8 of the U.S. Department of Labor, Employee Benefits Security Administration's February 2007 report which describes the scope of the audit and notes that the "Review of Abandonment Policies" was not reviewed. (Those objectives which were reviewed have notations such as "FS," "LTD," and "SP.")

REQUEST

A copy of the "comprehensive report regarding forfeitures and lost participants" mentioned in the July 2006 Board meeting minutes.

RESPONSE

Your request is granted. Please see enclosure.

Please contact me if you have any questions regarding your FOIA request. I can be reached at amanda.martz@tsp.gov or (202) 942-1660.

Sincerely,

Amanda P. Martz

Amanda P. Martz
FOIA Officer

Enclosure

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

THRIFT SAVINGS PLAN

November 9, 2006

MEMORANDUM FOR BOARD MEMBERS SAUL, FINK, WHITING, SANCHEZ AND DUFFY

FROM: GREG LONG, Director of Product Development

CC: GARY AMELIO, Executive Director

RE: **Dormant and Abandoned Accounts**

The purpose of this memorandum is to discuss the potential risks that dormant and abandoned accounts represent and steps to minimize these risks.

Dormant Accounts

It is generally understood that a dormant account is one where the account has seen no participant-directed activity or agency contributions for a significant period. Dormant accounts are a concern to the FRTIB for two reasons:

1. The owner of a dormant account is more likely to be unaware that he or she has a TSP account. Therefore, the participant or his/her beneficiaries may unwittingly forgo benefits that are due them.

2. A dormant account is less likely to be monitored by a participant; and therefore, if fraudulent activity were to occur, it is less likely to be discovered.

Dormant Account Defined

The specific criteria for a dormant account must be defined in order to perform a systematic review. For our inquiry, we looked at all account types that do not receive agency contributions. This includes all separated participants and all non-separated CSRS and uniformed services participants.

We defined a dormant account as one where none of the following events have occurred within the account since June 2003:

- A contribution
- A contribution allocation change
- An interfund transfer
- A loan issuance or loan payment
- A withdrawal
- A change of name/address/demographic data
- A request for mailed statement
- A successful log-in to the ThriftLine
- A form submitted for processing

Given this definition, our recent review of the TSP recordkeeping system yields a total of 116,017 dormant accounts or approximately 3% of the total number of open TSP accounts.

It is important to remember that an account that is dormant is not in itself indicative of any problems with the account. Rather, we view the lack of account activity as an indicator of accounts where we may have some potential risk. Considering that a study from the Pension Research Council finds that 85% of defined contribution plan participants reallocate their accounts less than annually, we are not surprised to find that 3% of TSP participants have had no activity in their accounts over a three-year period.

General Steps to Minimize Risk

We currently have in place general controls to minimize the risks that accounts will be either forgotten or misappropriated. These include:

1. In July 2005, we initiated a program to compare the addresses of TSP participants against the US Postal Service list of address changes each quarter. Where a match is found, a postcard reminding the participant to change his/her address with his/her agency or the TSP is sent to the forwarding address.

2. A requirement that all active participants must change their addresses or names through their employing Agencies.

3. A requirement that all separated employees requesting an address change must provide identifying security information and written requests must be signed. Such address changes result in a notice to both the old and new addresses.

Category-Specific Actions

The actions that are appropriate to maximize the proper delivery of benefits and minimize misappropriation risks differ depending on the status of the plan participant. Below we review the major classifications of participants and planned and/or proposed actions:

Accounts of Participants without Separation Codes: We have 6,394 dormant accounts for participants without separation codes. As current employees receive regular communications from their employing agencies and the TSP only accepts address changes directly from the agency, we view risks here as minimal. However, for participants without separation codes, we will ask the employing agencies to research these cases and confirm the participants' employment status.

Accounts of Separated Participants with $200 and Over: We have 90,611 dormant accounts for separated participants with $200 and over. We suspect that many of these participants may have consciously decided not to withdraw their accounts because they prefer the TSP over IRA products available in the marketplace. However, since risk of forgotten accounts and/or risk of misappropriation is higher with this group, we will take steps to minimize this risk. We propose to execute a reminder letter campaign where we will remind participants that they have benefits awaiting them. Secondly, by tracking returned mail from this campaign, we will take steps to correct bad addresses. Please see the next section where we fully describe this proposed effort.

Accounts of Separated Participants with More than $5.00 and Less than $200: We have 19,012 dormant accounts for separated participants between $5.00 and $200. Thirty-one days after separation and receipt of separation code, we process a distribution of accounts between $5 and $200. While this would seem to eliminate all accounts of this size, in practice corrective contributions made after participants have withdrawn their accounts and fluctuations in account value have resulted in a buildup of these accounts.

These accounts are all eligible to be distributed with a single lump-sum payment. We currently have a project underway to distribute these accounts as soon as administratively feasible. However, the number of distributions is large and will likely result in a significant number of returned checks. We are working to determine the most efficient method to accomplish this task. In addition, we plan to modify our procedures so that sweep distributions on all such accounts occur on a quarterly basis so that a future buildup of such accounts does not occur.

Reminder Letter

We intend to send a reminder to the 90,611 separated participants with accounts over $200. The letter will remind the participant that they have a TSP account and ask that they return a postage-paid return notice indicating that they still wish to maintain their account with the TSP.

The result from this mailing will be any of the following:

1. The participant responds indicating that he/she still wishes to maintain his/her account.
2. The participant responds indicating that he/she wishes to initiate a withdrawal from his/her account.
3. We receive the notice back with a forwarding address from the US Postal Service (USPS).
4. We receive the notice back as undeliverable from the (USPS).
5. We receive no response.

On those accounts where we receive a forwarding address from the USPS, we will send a postcard reminding the participant to change his/her address with his/her agency or the TSP to the forwarding address. On those accounts where we receive an undeliverable notice from the USPS, we will place a 'security hold' on their account, so that distributions cannot occur. We also recommend placing a security hold on the accounts of those participants that do not return the notice. Although this will likely affect a large group of participants, this minimizes risk to a greater extent. To alleviate any effect on customer satisfaction, we will highlight our concern about the security of participants' accounts. We will also develop a formal schedule for this reminder letter process to ensure that we are not repeatedly asking the same participants for a response.

The process of sending reminder notices and resulting security holds will serve three purposes:

1. It will minimize the risk that TSP benefits are forgotten.
2. It will protect the accounts of non-responders by disallowing withdrawals, but still allow account review and interfund transfers. The hold can be lifted on receipt of a notarized request provided to our processing unit.
3. The resulting returned mail will help us identify bad addresses.

In order for this process to work efficiently, each letter will be bar-coded to automate the corrections of incorrect addresses.

Abandoned Accounts

The policy for declaring an account abandoned and the administrative procedures related thereto are codified in the Code of Federal Regulations §1650.15 and §1651.16. Here, we review the portions of the policy applicable to our discussion and consider modifications to the policy.

Current Policy
Accounts are declared abandoned in the following situations:

- **Participant has failed to make a withdrawal election by the required withdrawal date.** When a participant turns 70½ and no distribution instructions are received, we initiate a series of mailings to the participant prior to declaring the account abandoned. A final notice, sent by certified mail, is sent to those participants that do not reclaim their accounts within six months of forfeiture.

- **Death cases where no beneficiary can be found.** When we receive notice of the death of a TSP participant, we identify and contact the beneficiary to arrange distribution. If the beneficiary's address is not readily available, we conduct research efforts internally to locate the beneficiary. We also utilize the services of the Internal Revenue Service to forward proper notification. If these efforts are unsuccessful, after one year from the participant's death, the account is declared abandoned and the assets forfeited to the TSP.

In addition to the abandonment process, we also forfeit accounts when a participant's balance is less than $5.00 when he/she separates from Government service.

The participants and beneficiaries in situations described above are due benefits but are no longer eligible to remain in the plan. Assets within accounts that are abandoned due to failure to make the required withdrawal election are transferred to an omnibus forfeiture account invested in the G Fund. Accounts abandoned for other reasons are immediately used to offset administrative expenses. In all cases, the account value is reduced to zero, and no interest accrues from the date of forfeiture. The purpose of not accruing interest is to enforce the requirement for required distribution. The participant may claim benefits after the account is forfeited using the Late Request for Full Withdrawal form, and beneficiaries may submit the Information Relating to a Deceased Participant form.

In 2005, 775 accounts were declared abandoned with an average account value of $32,524. The majority of these were for participants who failed to make an election by the withdrawal deadline. Approximately 80% of these abandoned assets were reclaimed by participants within one year. This pattern of activity is consistent with prior years. The number of de minimis (under $5.00) forfeitures in 2005 was 2,720 with an average account balance of $0.97.

Abandoned Account Risk

We view the risk of fraudulent activity within abandoned accounts as minimal because on-line withdrawals are not permitted. The more significant risk with abandoned accounts is that participants or beneficiaries that are legitimately due benefits will not receive them. To minimize this risk the FRTIB formerly posted a list of abandoned accounts with the account holder name, last known state of residence and employing agency. However, this practice was terminated as it increases the potential for fraudulent activity.

To locate participants and legitimate beneficiaries without publicly posting their identifying information, we suggest evaluating whether engaging a third-party company to locate and inform these parties of their benefits would be beneficial in light of the costs and risks associated with this activity. If this is found beneficial, the cost of such an effort could be a reasonable plan expense to be paid from assets held in the forfeiture account.