FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

August 24, 2022

Mike Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on August 24, 2022, at 10:00 a.m., Eastern Time. The meeting was held at the Board's offices at 77K Street NE and was open to the public via teleconference. In attendance were David A. Jones of Connecticut, member (by telephone); Dana K. Bilyeu of Oregon, member; Leona Bridges of California, member; Stacie Olivares of California, member; Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Kimberly A. Weaver, Director, Office of External Affairs; Susan Crowder, Chief Financial Officer (by telephone); Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Thomas Brandt, Chief Risk Officer (by telephone).

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the July 26, 2022 Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the July 26, 2022 Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on July 26, 2022 be approved.

2. Recordkeeper Annual Service Review: Accenture Federal Services (AFS).

Mr. Deo gave opening remarks, including a brief summary of the agenda of the meeting.

At the request of the Board, Elaine Beeman, Owen Davies, Jennifer Combs, Troy Myers, and Lon Anderson appeared on behalf of AFS to provide an overview of the Converge transition. See "Converge Go-Live Presentation" (attached).

Ms. Beeman, AFS Civilian Portfolio Lead, began her remarks with an apology for the poor performance in the initial days of the Converge transition, stating that it was not the experience that TSP participants and beneficiaries deserve. Ms.

Beeman then noted that AFS has been working to fix the issues and they are now close to meeting key targets.

Mr. Davies, AFS Client Account Lead, acknowledged poor call center performance, and he apologized to impacted participants. Mr. Davies stated that this program has been in development for several years and that all milestones were completed over the 18-month delivery timeframe; 743 billion dollars in assets were converted and the core environment was delivered securely. Although Mr. Davies acknowledged that initial call center performance was poor, which negatively impacted participants, beneficiaries, and the TSP brand, he also emphasized that the Converge transition was more than a website refresh; almost everything about TSP delivery was changed when the transition occurred. Both the platform and all underlying technology changed. Further, parts of the plan also changed, including the offering of a second general purpose loan and adjustments to the method by which loan evaluations and thresholds are computed.

Mr. Davies stated that among the changes to the TSP, AFS also made the decision not to make historical documents available. In response to a question from Member Bilyeu, Mr. Davies stated that significant demand for historical documents does not exist within the commercial sector, and that participants can call the contact center to receive certain needed statements. Member Olivares questioned this rationale. In response to a question from Chair Gerber, Mr. Davies explained that participants can view their account balances for the past 10 years. In response to Member Olivares's inquiry about whether it is prohibitively expensive to make historical information available to participants, Mr. Davies responded that he was not sure, but the contract pays for outcomes, not effort. In response to a question from Member Bridges about customizing the commercial 401(k) solution for the TSP, Mr. Davies said that some aspects have been customized.

Mr. Davies then discussed the underlying issues that led to the initial problems with the transition: (1) underestimating the expected call volume, and (2) the establishment of new online credentials to access the AFS-managed system. Mr. Davies stated that AFS calculated the expected post-transition call volume by doubling the FRTIB's previous single largest daily call volume. However, the actual number of calls was six times that amount, and AFS was not prepared or staffed for that, creating a negative participant experience. Mr. Davies acknowledged that the problem was further exacerbated by requiring all participants to establish new online credentials. Although this was done to prevent fraud, the process was overly complex, creating account access issues and difficulty for many participants. Within the first two weeks, AFS worked to remediate both issues, but Mr. Davies acknowledged that these two underlying issues were significant.

Mr. Davies also noted that prior to the transition, there was an extended blackout period when participants could not perform any transactions or interact with their TSP accounts, creating pent-up demand. Additionally, the turbulent financial market conditions increased participant interest in their TSP accounts. These factors as well as changes to the participant experience increased call volumes, and new staff and technology at the call centers exacerbated long wait times.

Mr. Davies then discussed the current status. Almost 2.25 million participants have set up their account online. Call volume is dropping, although it is still higher than the prior average number of daily calls. The average time on hold is now down to 24 seconds and the average call duration is just under 11 minutes. Customer satisfaction on the phone is at 83 percent, and 81 percent of calls are answered in less than 20 seconds.

Chair Gerber stated the entire Board was very disappointed in the AFS performance and how the transition started but appreciates the improvement they have made since then. AFS should be in frequent communication with Mr. Deo and the FRTIB leadership team, as the Board will be confirming that staff is receiving adequate information from AFS. Chair Gerber requested another briefing from the AFS leadership team early in the first quarter of 2023.

Ms. Beeman provided closing remarks, in which she emphasized the importance of this program to AFS and the imperative that they correct their mistakes. AFS welcomes an ongoing dialogue and will be transparent about the actions that they are taking.

In response to a question from Member Bilyeu, Mr. Davies acknowledged that AFS got their initial staffing levels wrong, and they are looking at other volume-increasing events to ensure that they are adequately staffed going forward. Also in response to Member Bilyeu, Mr. Davies explained that AFS does not have a target date to transition all participants to new accounts, and this will likely never be finished since new members will always join the TSP. However, AFS is reaching out to approximately 300,000 participants daily and all participants with an email on file will be contacted by the end of August. Mr. Ramos stated that currently more participants are interacting with the TSP than prior to the transition.

In response to a question from Member Olivares regarding call center staffing going forward, Mr. Davies stated that AFS is reskilling staff in order to make them capable of handling different types of calls, and customer service satisfaction is steadily increasing. Also in response to Member Olivares, Mr. Davies explained that staffing levels are based on what they see in previous weeks rather than projections about how the economy might influence call volumes.

Member Bilyeu stated that she was pleased to see the capability for electronic signatures on beneficiary designations. Chair Gerber thanked the AFS team for presenting and requested that AFS return to brief the Board periodically.

3. Monthly Reports.

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics July 2022" (attached). Over 500,000 participants set up new online accounts in July. Mutual Fund Window (MFW) enrollments fell by 65 percent compared to June, and there were just under 1400 MFW accounts at the end of July with about 25 million dollars in assets transferred that month. Loans and withdrawal processing in July remained high, with increases in loans likely due to participants taking advantage of the second general purpose loan.

Chair Gerber and Member Bridges questioned whether the number of MFW participants was low and whether TSP participants understand its advantages. Mr. Ramos opined that the Agency has done a good job of educating participants about the MFW but explained that two to four percent MFW participation is common in defined contribution plans. Current market turbulence likely makes the MFW less attractive than the TSP core investments, but he expects an eventual two percent participation rate. Mr. Deo clarified expectations for long term adoption of the MFW would be one to two percent of participants and two to four percent of assets. Mr. Deo added that he does not expect to reach two percent soon and cautioned that participants must carefully consider whether the MFW is appropriate for them.

b. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See "July 2022 Performance Review – G, F, C, S, I, and L Funds" (attached). For the month of July, BlackRock's performance for the F Fund was ahead of the Fixed Income Index by three basis points, primarily due to securities lending. Performance for the C Fund was in line with the Large Cap Index. Performance for the S Fund exceeded the Small Mid Cap Index by seven basis points, primarily due to securities lending. Performance for the I Fund was ahead of the International Index by 18 basis points, primarily due to fair value pricing.

State Street's July performance for the F Fund was ahead of the Fixed Income Index by three basis points, primarily due to a difference in pricing methodology. Returns for the C Fund were in line with the Large Cap Index and S Fund returns were ahead of the Small Mid Cap Index by five basis points, primarily due to securities lending.

In July, despite continued high inflation and increasing concern about an economic slowdown, equity investors drew confidence from some better-than-expected corporate earnings. The C and S Funds rose sharply, and the I Fund also posted a healthy gain. Although the Federal Reserve again raised its target for shorter-term interest rates, longer-term rates fell during the month, contributing to a gain for the F Fund. All the L Funds finished ahead.

Year-to-date, BlackRock's performance for the F Fund was ahead of the Fixed Income Index's return by 41 basis points, primarily due to securities lending. For the C Fund, BlackRock outperformed the Large Cap Index by four basis points, primarily due to securities lending. For the S Fund, BlackRock's performance exceeded the Small Mid Cap Index's return by 27 basis points, primarily due to securities lending. Its performance for the I Fund was ahead of the International Index by 82 basis points, primarily due to fair value pricing and tax advantage.

Year-to-date, State Street's performance for the F and C Funds was in line with the Funds' respective indices. For the S Fund, State Street outperformed the Small Mid Cap Index by 22 basis points, primarily due to securities lending.

Mr. McCaffrey then provided an update on month-to-date performance through August 23. The C Fund is ahead 0.09 percent. The S Fund is up 1.36 percent and the I Fund is down 2.98 percent. The F Fund has a loss of 2.16 percent. The G Fund is ahead by 0.18 percent.

Net interfund transfers into the G Fund continued to decline from previous months, likely due to better market conditions. Participants transferred 2.6 billion dollars to the G Fund, which is a small number, considering the size of the TSP's invested assets. Mr. McCaffrey observed that even in periods of higher volatility, interfund transfers have not risen to concerning levels, and the vast majority of participants leave their investments untouched in any given month.

Member Olivares suggested changing the nomenclature from "tracking error" to "benchmark variance" to more accurately reflect what is occurring in the performance of funds, noting that "error" may unnecessarily raise concern.

c. Legislative Report

Ms. Weaver began by noting that the House of Representatives and Senate are out of session until after Labor Day. She noted that the Government Accountability Office (GAO) has agreed to a review of the FRTIB's implementation of Converge, and that review is expected to begin around November 2022. Finally, Senators Marco Rubio and Marsha Blackburn introduced a bill that prohibits executive branch agencies from purchasing goods or services from, investing in, entering a contract with, or otherwise providing funding to a covered entity. This bill uses lists including those maintained by the Department of Commerce, Department of Defense, the Federal Communications Commission, and the Office of Foreign Asset Control (OFAC). The list from OFAC is the only one that prohibits U.S. citizens from investing in these entities, and the other lists serve different purposes. FRTIB is concerned about the effect of this bill, specifically on the MFW.

4. <u>2021 Federal Information Security Modernization Act (FISMA) Report</u>.

Ms. Barbara Holmes, Chief Audit Executive, introduced Kola Isiaq, Edwen Delcid, and Ban Le from Williams Adley, the auditors who assisted with the FISMA audit for Fiscal Year 2021. <u>See</u> "2021 Federal Information Security Modernization Act Report" (attached).

Mr. Delcid provided opening remarks and thanked the FRTIB management team for the support over the past two audits for Fiscal Year 2021 and Fiscal Year 2022. Mr. Isiaq also thanked the Board for the opportunity to present the results of the FISMA audit, and he stated that the overall results were positive. Mr. Delcid provided a high-level overview of the effectiveness of FRTIB's information security program for Fiscal Year 2021. During this audit, Williams Adley evaluated two systems within the FRTIB environment: the Mainframe environment, which supports the Agency's High Value Assets (HVA) and represented the legacy environment prior to 2021, and the Office 365 environment, which represents a move to a third-party cloud solution.

Williams Adley utilizes the FISMA Inspector General (IG) Reporting Metrics to perform its audit, which align with the National Institute of Standards and Technology (NIST) Cybersecurity Framework. These metrics contain 66 questions aligned to five functional areas of nine underlying domains. Each question allows for a rating of one through five, with one being the lowest and five being the highest potential score; however, level four is the goal for effectiveness. Final scores are based on the simple majority where the mode across the questions serves as that domain's rating, and consequently, that function's rating. Fiscal Year 2021 represented the first year in which supply chain risk management was included in the metrics.

Overall, in Fiscal Year 2021, FRTIB's information security program and the two reviewed information systems (Mainframe and Office 365) were deemed effective. Many of the FISMA domains retained their maturity ratings from the previous year, and the management team addressed four prior-year recommendations. Williams Adley identified ten individual conditions or issues and worked with management to identify root causes. They issued four new recommendations based on these root causes.

Seven out of the nine FISMA domains were rated level four, while Contingency Planning was rated level two, and Supply Chain Risk Management was rated level one. Mr. Delcid then explained the root causes for the recommendations. First, FRTIB is still in the process of implementing corrective actions for recommendations issued since FY2016; many of those initiatives took multiple years to implement and make improvements. Second, Williams Adley found some minor issues with the accuracy of data points being used to execute specific controls. However, the differences were minimal and did not impact how FRTIB management responded. Another root cause was the lack of a process to ensure that users were appropriately completing their security awareness training in a timely manner; this issue has already been fixed. Finally, FRTIB was in the process of updating its contingency planning program to account for third-party systems, such as Office 365, and this issue also improved.

Chair Gerber thanked FRTIB staff and the Board for the emphasis placed on implementing audit recommendations over the last few years.

5. Chief Technology Officer (CTO) Update.

Mr. Desai provided the Agency's response to the Williams Adley FISMA audit report. See "Chief Technology Officer Update" (attached). Mr. Desai began by thanking Williams Adley, then provided additional context to the report and the work that FRTIB has done in response to the recommendations. Mr. Desai noted that FRTIB is in the process of developing a data breach guide and is working with the AFS team to finalize the taxonomy and language used in that guide. He expects this will be completed soon. Mr. Desai noted that FRTIB has successfully addressed the recommendation regarding training. FRTIB takes phishing and security events seriously, and the Agency performs a series of training exercises throughout the year. FRTIB has also implemented a comprehensive penalty table which allows the Agency to track repeat offenders and to determine appropriate consequences. To address another recommendation, FRTIB has developed a comprehensive dashboard to monitor cyber health and is now performing quarterly "deep dives" to examine the validity of data. Further, FRTIB is now working with AFS to develop the metrics used in the dashboard. FRTIB is working on the contingency planning recommendation. The annual contingency planning training includes third-party systems, and there have been numerous tabletop exercises. Finally, FRTIB is conducting a review of managed service provider contingency plans to determine how they interact with Agency contingency plans.

6. FY 2023 Budget Proposal and Approval.

Ms. Crowder began her presentation with a high-level review of Fiscal Year 2022. See "Annual Budget Presentation, FY22 Review and FY23 Proposal" (attached). This past year's priorities included fully implementing Converge. Another priority was to fully implement Financial Systems Modernization (FSM), Managed Security Services (MSS), and Agency IT Services (AITS). Additionally, to support the change to a managed services environment, FRTIB transitioned to a new operating model. Finally, the FRTIB needed to maintain steady-state operations while these transitions occurred.

Ms. Crowder reminded the Board that transitioning to Converge was necessary to address FRTIB's legacy recordkeeping systems and operational challenges. Previous recordkeeping processes were inefficient and labor intensive, while participant tools and services were based on old legacy technology. The legacy technology infrastructure was not agile, and it was difficult to change and scale as quickly as needed.

Last year, the Board approved a FY22 budget of 496.8 million dollars, ensuring that the Agency could meet its strategic priorities. The FRTIB budget is divided into four categories: recordkeeping, agency operations, payroll, and communications. The majority of that, 344.4 million dollars or 69 percent of the budget, supported both our current and prior recordkeeping operations as we transitioned to the new recordkeeper. Of the remainder, 77.7 million dollars supported agency operations and 57.7 million dollars funded salaries and benefits of Agency staff. Finally, 17 million dollars was in support of participant communication programs. Recordkeeping and communications support our participant-facing operations and services, and combined, this is 72 percent of the total FY22 budget.

Ms. Crowder shared that during Fiscal Year 2022, FRTIB has experienced a surge in key operational metrics compared to last year at this time. The TSP has handled approximately 757,000 forms and 6.6 million calls compared to 466,000 forms and 2.6 million calls at this time last year. The TSP has mailed 37 million pieces of communications materials to stakeholders, up from 17.5 million at this time last year. The TSP has also processed about 115 million contributions totaling 32 billion dollars versus the 96.6 million contributions processed last year, totaling 24.3 billion dollars. Average assets under management currently total 763 billion dollars for 6.6 million participants, up from 703 billion dollars for 6.3 million participants this time last year.

Ms. Crowder highlighted the numerous achievements of the TSP between Fiscal Year 2017 and Fiscal Year 2021, including the launch of the Blended Retirement System for Uniformed Services and implementation of legislative requirements, including the SECURE and CARES Acts. Ms. Crowder then contrasted all the work done between Fiscal Year 2017 and Fiscal Year 2021 with the work done solely in Fiscal Year 2022, including the transition to a new recordkeeper, award of the AITS contract, and implementation of MSS and FSM, among other accomplishments.

Ms. Crowder stated that in order to support planned growth, FRTIB's budget grew to a high of 498 million dollars in Fiscal Year 2021. However, the Agency projects that over the next few years, there will be a slight downward budgetary trend. Ms. Crowder noted that average budget execution over the last eight years has been 91 percent of the total budget. Ms. Crowder reminded everyone that participants and beneficiaries are only charged what FRTIB spends, and that FRTIB is prudent in spending approved funds and only spending what is needed.

Regarding Agency staffing levels, Ms. Crowder explained that they have increased and decreased over time, and the goal is to ensure that the Agency is staffed both at the right levels and with the right skills. In Fiscal Year 2023, FRTIB does not project an increase in staffing level.

Mr. Deo then presented the Fiscal Year 2023 budget, noting that FRTIB is focused on improving participant outcomes through a focus on policy and strategic decisions. To do this, FRTIB must ensure that the TSP is providing top-tier defined contribution services to participants and FRTIB is functioning as a high-performing agency. FRTIB also needs to successfully complete the transition to a managed services operating model.

The Fiscal Year 2023 priorities include developing and implementing a comprehensive vendor management framework, which means FRTIB can track what AFS and other vendors are doing and ensure that they are making continuous improvements. Mr. Deo also emphasized supporting current FRTIB employees, as there have been several internal changes through the Converge transition. Finally, FRTIB plans to maintain steady-state operations as a high-performing agency.

For Fiscal Year 2023, FRTIB is requesting 481.4 million dollars, a lower amount than last year due to decommissioning of legacy systems. There are three primary budget drivers: Converge is the largest, followed by AITS and decommissioning activities in the Office of Technology Services, as well as contingency funds for the unknown. The three main categories of contingency funds are information technology, agency operations, and recordkeeping.

Looking at the impact of the budget on gross basis points, Mr. Deo explained that participants are charged expense ratios on a calendar year basis, but budgets are done on a fiscal year basis. The expense ratios increased from Calendar Year 2021 to Fiscal Year 2022 because in Calendar Year 2021, FRTIB did not spend its entire budget, while in Fiscal Year 2022, the Agency projects that it will use its entire budget. However, FRTIB expects the expense ratio to fall over time.

Member Bridges stated that it is rare to see a budget that decreases and commended management and staff for managing wisely and protecting participant assets. Member Olivares and Mr. Deo had a brief discussion about the expense ratio information provided for the core funds and the MFW, as well as the fees that MFW participants pay. Member Bilyeu noted that the MFW fees are structured to ensure that participants without MFW accounts are not subsidizing those with MFW accounts. Member Jones applauded Ms. Crowder and her team's work on the budget.

Chair Gerber entertained a motion for approval of the FY 2023 Budget of 481.4 million dollars. The following motion was made, seconded, and adopted without objection:

<u>MOTION</u>: That the FY23 budget be approved.

7. <u>Adjourn</u>.

On a vote taken by the Chair, the members closed the meeting at 11:49 a.m. for executive session.

At 12:47 p.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chair Gerber adjourned the meeting at 12:47 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Converge Go-Live Presentation
2. Thrift Savings Fund Statistics July 2022
3. July 2022 Performance Review – G, F, C, S, I, and L Funds
4. 2021 Federal Information Security Modernization Act Report
5. Chief Technology Officer Update
6. Annual Budget Presentation, FY22 Review and FY23 Proposal