



MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 27, 2022

Mike Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 27, 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 Dana K. Bilyeu of Oregon, member (by telephone); 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.

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 August 24, 2022 Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the August 24, 2022 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on August 24, 2022 be approved.

2. Monthly Reports.

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

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics August 2022" (attached). Mr. Ramos reported that contact center activity continues to stabilize three months after the Converge transition. To date, over 2.3 million participants have set up new accounts with 700,000 new accounts in August. Most participants are logging in through the website, while 115,000 downloaded the mobile application in August. In August, Mutual Fund Window (MFW) accounts increased 36 percent for a total to date of 1,900 MFW accounts. Loan and withdrawal activity sustained increases in August.

Mr. Ramos addressed misconceptions about the TSP. He provided that although there were long wait times with the call center in June and July, calls have been answered over the last six weeks, on average, within 30 seconds and over the last several weeks, around 15 seconds. Regarding concerns about account balance conversion, Mr. Ramos added that all account balances converted accurately. Every inquiry for inaccurate account balances was investigated and balances were confirmed.

Despite participant concerns, no beneficiary forms were lost; 1.2 million converted electronically to the new system. While there were 157,000 forms that did not convert electronically due to poor data quality, everyone who had a beneficiary form on file still has a beneficiary form on file. In response to a question from Member Bilyeu, Mr. Ramos confirmed all participants who have beneficiary designations that did not convert electronically were contacted either through email or postal mail. Mr. Ramos provided he would look into whether those communications actually reached the participants.

Mr. Ramos next provided that all participants can setup their online account, with 2.5 million participants who have completed this process to date. For those who have not yet created their new online account, mailings were sent out encouraging account creation.

Mr. Ramos also addressed perceptions that the MFW is unsuccessful, noting that the usage is in line with expectations and industry standards. The MFW is not useful for everybody but will attract a certain subset of participants. In response to a question from Member Bridges, Mr. Courtney provided that FRTIB provides MFW education courses, and information is also provided on the website.

In response to a question from Member Olivares about call center staffing, Mr. Ramos confirmed that the call centers are adjusting staffing levels for traditional high seasons. Mr. Ramos is not anticipating further increased call volume due to account creation, because more participants have already created accounts in the new system than had active accounts on the previous website, but he added that call volumes with the new vendor have been a little bit higher overall so they will have to staff the call centers accordingly.

b. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See “August 2022 Performance Review” (attached).

For the month of August, BlackRock’s performance with the F and C Funds were in line with the Funds’ respective indices. Performance for the S Fund exceeded the Small Mid Cap Index by three basis points, primarily due to securities lending. For the I Fund, BlackRock underperformed the International Index by 104 basis points, primarily due to fair value pricing.

State Street's performance for the month of August for the F Fund was ahead of the Fixed Income Index by three basis points, primarily due to securities sampling. The C and S Fund returns matched their respective indices.

In markets for August, strong employment and corporate earnings inspired early investor bullishness. Markets ended the month on a sharp downturn after the Federal Reserve emphasized its commitment to fight inflation. The C and S Funds posted losses with the I Fund also falling, in part, due to a stronger U.S. dollar. Interest rates rose during the month, contributing to a loss for the F Fund. All the L Funds finished lower.

Securities lending influenced BlackRock's year-to-date performance for the F, C, and S Funds. Its performance for the F Fund was ahead of its Fixed Income Index by 42 basis points. Its performance for the C Fund was ahead of the Large Cap Index by four basis points. For the S Fund, BlackRock's performance exceeded the Small Mid Cap Index by 29 basis points. Its performance for the I Fund lagged the index by ten basis points, mostly due to fair value pricing.

For State Street's year-to-date performance, the F Fund exceeded the index by five basis points, primarily due to securities lending. Its performance for the C Fund was in line with its index. Its performance for the S Fund outperformed its index by 23 basis points, primarily due to securities lending.

For the current month through September 26, returns for stocks and bonds are very negative. The C Fund is down 7.48 percent, and the S Fund is down 10.41 percent. The I Fund is down 9.57 percent while the F Fund is down 4.58 percent. The G Fund is up 0.24 percent.

In response to a question from Member Olivares regarding the differences in asset levels among the Lifecycle Funds, Mr. McCaffrey provided that there are a variety of factors explaining variations in Lifecycle Funds such as contributions, withdrawals and market fluctuations. Mr. Deo explained that five of the Lifecycle funds opened in 2020 whereas the older Lifecycle funds have existed for a long time and therefore have significantly more assets. Additionally, the longer dated Lifecycle Funds have a smaller percent of contributions because they are primarily made up of younger participants with lower incomes.

Member Olivares further inquired whether Mr. McCaffrey anticipates participants transferring out of the L Funds and into the G Funds due to concerns in the markets. Mr. McCaffrey provided that interfund transfers in August were unremarkable, but in September there has been an uptick in interfund transfers to the G Fund as participants show increased concern about the market. These transfers have not reached an alarming rate, however, as most participants have not changed their investment strategies.

c. Legislative Report

Ms. Weaver reported that yesterday evening a draft of a continuing resolution to keep government open through December 16, 2022 was unveiled. The Senate is leading this effort and must pass the bill by September 30, 2022 or most of the Government will shut down. This will not affect the FRTIB because the Agency is self-funded, but it can affect TSP participants as employees of Federal agencies

3. Quarterly Vendor Risk Management Report.

Mr. Brandt presented the Office of Planning and Risk's (OPR) synopsis of the risk assessment of eight key vendors that are critical to operating the TSP. See "Quarterly Vendor Risk Assessment Q2 2022" (attached).

Mr. Brandt reported FRTIB is down from eleven key vendors to eight as Broadridge, RA Outdoors, and Serco Group are no longer providing services directly to the Agency. Next quarter, three additional vendors, DataBank, Equinix, and Fidelity National Information Services, will also no longer provide services to the Agency, due to FRTIB's exit from data centers and other organizational changes. For the eight current vendors, OPR's analysis found all vendors are able to fulfill their contractual obligations to FRTIB.

4. Participant Survey Report.

Mr. Brandt introduced Dennis McNulty, Branch Chief for Strategic Performance within OPR, to provide the Participant Survey Report. See "Participant Satisfaction: Trends 2020-2022" (attached). Mr. McNulty reported that the satisfaction survey is intended to gauge TSP participant satisfaction with current plan features and to help the Agency better understand interest in potential new offerings.

OPR conducted this survey just prior to the transition to the new recordkeeper. The overall response rate of 15 percent is on par with prior surveys. The Blended Retirement System (BRS) response rate of 3 percent continues to trail other groups, which is consistent with low BRS response rates in prior surveys. Mr. McNulty hypothesized low BRS response rate to this population which includes many participants under 25 years old.

The survey showed that overall satisfaction levels for participants since 2020 is 87 percent and remains above satisfaction levels for participants in other defined contribution plans across the United States. The slight decline in overall satisfaction since last year is in line with a similar, broader survey and may reflect a general market decline. Mr. McNulty noted that while Federal Employees Retirement System (FERS) and US Legacy satisfaction remains stable over the past three years, BRS participants have reported a decline in being extremely satisfied with the TSP, going from 34 percent to 9 percent, which he discussed further later in the presentation.

The survey also showed results across career tenure indicating that the

TSP is appreciated more as participants move toward retirement. The one-year post-separation statistics show nearly seven out of ten participants retain a balance with the TSP, likely due to the expanded flexibility of the withdrawal program.

Two aspects in the survey that declined since last year are the ability to take a loan and the ability to transfer money from other retirement plans into the TSP. Mr. McNulty noted that no changes to the processes for these transactions occurred at the time the survey was administered; the decline may be explained, in part, by participants responding in the later stages of the survey. During this time period, the Agency began cutoffs for these transactions in preparation for the transition to the new recordkeeper. The new recordkeeper offers a concierge service to assist participants who transfer funds into the TSP with the hope that this will help address future satisfaction in this area.

The survey found that a significant majority of participants are satisfied with security of accounts, annual statements, and Plan information provided on TSP.gov. Uniformed Service Participants continue to be less satisfied with several aspects of the Plan, especially the ability to take a loan, transfer into and out of the TSP, and flexibility of withdrawal options.

Mr. McNulty reviewed survey perceptions of TSP communication channels. All channels were rated useful by large majorities of participants. The most widely used channels such as annual statements, MyAccount, and information on TSP.gov, were rated most useful. The ThriftLine was highly regarded with nine out of ten participants satisfied, a key driver of TSP satisfaction.

The survey also sought to help FRTIB understand why some participants choose to transfer money out of the TSP. Mr. McNulty provided reasons including consolidation of retirement accounts, perceived better or more investment choices, and perceived ability to earn higher returns elsewhere. The MFW may address concerns for participants seeking more investment choices and higher returns.

Mr. McNulty finished his report by discussing participants' desire for potential features. Participants are most likely to use tools to help them with retirement withdrawal decisions and other individually tailored modeling tools. The new recordkeeper is offering features such as the MFW, concierge roll-in service, a mobile application, and a new retirement income plotting tool that may address participant desires.

Member Olivares inquired whether the Plan offers younger BRS participants a calculator to demonstrate the effect that TSP contributions will have on their take home pay. Mr. Ramos stated that the Plan does not currently offer that calculator, but he is taking note of the request.

5. Behavioral Science Update.

Mr. Courtney introduced Elizabeth Perry, social scientist within the Office of Communications and Education (OCE), to provide a Behavioral Science Update. See "Social Science Update" (attached).

Ms. Perry explained that her role is to see how research insights through behavioral science can improve the Agency's targeted outreach and policies. Her presentation focused on whether there were any differences in how underserved groups were using the TSP. This is in line with an Executive Order for agencies to promote equity and remove barriers for underserved groups in accessing benefits and services. The Agency defined underserved as those in the lowest twenty percent of estimated salary. She provided that among participants who were automatically enrolled at three percent in of salary 2020, those in the lowest salary quintile were more likely to have made no changes to their contribution amount. Since the full TSP match is at five percent, the data focused on why these participants were not contributing more. Ms. Perry provided that these participants were asked about attitudes towards savings and familiarity with the TSP match. She then tested related messaging with focus groups with the goal to refine the Agency's messages. Once the messaging was refined, it was tested on a larger scale: roughly 3,000 federal employees who had been automatically enrolled at three percent and were still there.

Ms. Perry shared that these ~3,000 employees were divided into three groups. One group's email message focused on peer influence while another group's email was a personalized message. The third group received no email at that time to compare data between outreach and no outreach. The results demonstrated that after three months, 15 to 17 percent of participants increased their contributions in the groups who received an email. If maintained until age 65, this is potentially another year or more of salary in retirement. Ms. Perry further provided that the focus group feedback on communication was not necessarily predictive of the results on a larger scale.

Ms. Perry also provided that they looked at data where some participants age 50 and older were using the catch-up contribution program incorrectly. She received feedback that some participants were confused by the program. In 2021, as a response to these concerns, the catch-up process was simplified where savings would automatically apply to catch-up contributions for participants turning 50 and older once they reached their regular contribution limits. The results showed that when this process was implemented, FRTIB saw the most catch-up dollar contributions ever; roughly 80 million dollars more than the previous year. She added that there was also a 16 percent increase in the number of people utilizing catch-up contributions in 2021. In response to a question from Member Bridges, Ms. Perry provided that there would be continued tracking of "spillover" with catch-up contributions.

Member Olivares commented on the differences in framing messaging as positive versus negative and asked Ms. Perry about the role of shame and underrepresented populations when it comes to money. Ms. Perry provided that some negative messaging is effective because of a behavioral insight called loss aversion suggesting that people dislike losing more than they like gaining. But she was also pleased with the positive responses from a campaign that encouraged contribution by emphasizing the ability to retire one year earlier. She would like to work on similar empowering messaging in the future.

In response to an additional question from Member Olivares, Ms. Perry advised that her work informs the participant satisfaction questionnaires, and she provides feedback on the questions before the survey is released.

6. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided an internal audit update. See “Internal Audit Update” (attached). Ms. Holmes reviewed the status of the 2022 internal audit plan. The procurement and contract award audit has been completed. The Agency is currently executing the vendor management and contract closeout audit. Additionally, one review and one audit have been added to the 2022 Plan: the Government Accountability Office (GAO) audit readiness review, and the decommissioning of legacy assets. Due to these additions, the insider threat audit and the improper payments audit have been moved to 2023. Ms. Holmes explained she is comfortable with this move because insider threat and improper payments were recently audited so their move to 2023 should not cause any additional risk.

Ms. Holmes provided that the shared drive file review of three offices identified instances of noncompliance with the file plan. The procurement and contract award process audit identified two findings of insufficient documentation to support contract awards and missing or incomplete Contracting Officer and Contracting Officer’s Representative documentation. These two were added to the overall internal audit findings, and three others were reviewed and closed from the capital asset management audit conducted in 2021.

Ms. Holmes noted that the GAO audit readiness review has a completion target by the end of October. Other internal audit activities include conducting the legacy asset decommissioning review and drafting call orders for the 2023 FISMA audit and the 2023 internal audit plan.

Member Bilyeu commended the significant audit improvement over the years and expressed gratitude to Ms. Holmes and her team.

7. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 10:57 a.m. for executive session.

At 12:54 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 12:54 p.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics August 2022
2. August 2022 Performance Review
3. Quarterly Vendor Risk Assessment Q2 2022
4. Participant Satisfaction: Trends 2020-2022
5. Social Science Update
6. Internal Audit Update