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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 20, 2004

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 20, 2004, at 9:04 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 1250 H Street, NW, Washington, D.C. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Gary A. Amelio, Executive Director; Thomas K. Emswiler, Acting Secretary; James B. Petrick, Director, Benefits and Investments; Thomas J. Trabucco, Director, External Affairs; Lawrence Stiffler, Director, Automated Systems; and Pamela J. Moran, Deputy Director, External Affairs.

Upon convening the meeting, Mr. Saul congratulated Mr. Amelio on being named plan sponsor of the year by Plansponsor magazine. He also congratulated all employees of the Board for their contributions and praised Mr. Amelio, Ms. Moran, Mr. Stiffler, Mr. Trabucco, Mr. Petrick, and Ms. Woodruff for doing a fantastic job over the past year. He asked Mr. Trabucco to send copies of the Plansponsor article to the Board's key oversight officials noting that we should keep them apprised of the good as well as the bad.

1. Approval of the minutes of the December 15, 2003, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the December 15, 2003, Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board member meeting held on December 15, 2003, be approved.

2. Thrift Savings Plan activity report by the Executive Director.

Mr. Amelio remarked that he had also been interviewed by Pensions and Investments magazine and that he anticipated obtaining additional good publicity for the Plan. Mr. Saul expressed his opinion that this is a very good Plan and, with en-

hancements, it will be even better. He encouraged Mr. Amelio in his effort to make the Plan better known.

a. Life fund update.

Mr. Amelio advised the Board members that the Agency had interviewed three companies that responded to the Request for Information on life style/life cycle funds and that he anticipates completing the interviews in the next three to four weeks. Before making a proposal to Board members to issue a Request for Proposals (RFP), he plans to build consensus among the ETAC, Congress, and other interested groups (to include advising the media). He anticipates making a recommendation to the Board at the March meeting.

He explained that implementing a life style or life cycle fund would not require much change except with the TSP's communications program, such as updating the web site and developing new educational materials. He added that part of the communications piece would be a survey of Plan participants. In order to be cost effective, the survey would likely be web-based. The Department of Labor, the General Accounting Office, and our Congressional oversight committees have also expressed the desire to see the results of a survey in order to assess participant satisfaction with the Plan.

He added that the earliest date for implementation would be January of 2005. Mr. Saul stated that, if we do go forward, we should establish a target implementation date. Mr. Amelio concurred and said that he would establish an aggressive implementation schedule.

b. Participant statements.

Mr. Amelio advised the Board members that the first new system statements were mailed last month. Fourth quarter statements have been produced and will be mailed in the next several weeks. About 10 percent of participants (376,795) have requested paper copies of their statements (about 100,000 of these requested their paper copy over the web). Providing electronic statements will save participants approximately $9 million dollars per year (even though we now provide statements four times per year instead of the previous two times per year).

c. Uniformed service member participation.

Mr. Amelio advised the Board members that 33,000 members of the uniformed services opened TSP accounts during the last open season and that he will let Defense Department officials know how pleased the Agency is with this increase. Mr. Sanchez remarked that he was also pleased with this increase. Mr. Saul commented on how the new features of the TSP were making it more accessible and that participation should increase as a result.

d. Audit recommendations.

At the November Board meeting, Mr. Fink questioned the 42 open audit items in the Department of Labor's audit report. Mr. Amelio stated that Mr. Petrick had sent a complete explanation of our work to the Department of Labor and that their auditors were working to close as many as possible in the regular course of business.

e. Parallel call center RFP.

Mr. Amelio explained the period for responding to the RFP for a parallel call center closed on December 15th. The Agency received over twenty responses and approximately two thirds satisfied the minimum technical requirements. The proposals are being evaluated and our target date for opening the center remains July 2004.

Ms. Moran noted that the waiting period at the NFC call center is now about 4 1/2 minutes and that it is receiving about 10,000 calls per day. NFC is in the process of adding 13-15 customer service representatives which will improve service.

f. Mainframe computer.

Mr. Stiffler reported that a new IBM (2064 (1C5)) mainframe has been delivered to New Orleans and was to be installed by January 24th. The target date to put it into production will be delayed until at least February 7th due to software licensing and technical issues. When operational, it will speed up transactions (in particular those made via the ThriftLine) and will allow for workday testing and development operations, as opposed to the current requirement to undertake such operations on weekends.

g. MATCOM.

Mr. Amelio advised that SI International, Inc., will acquire MATCOM, our primary IT vendor, at the end of January. He and Mr. Stiffler have made a due diligence investigation and, after the acquisition, he, Mr. Stiffler, and Ms. Moran will meet with SI leadership to ensure the Agency receives the same level of support as it received from MATCOM.

h. Financial audit.

Mr. Amelio advised the Board members that Deloitte Touche had started its audit at the Board's offices and will be at NFC in February. It will make a final report to the Board members in April.

i. NFC takeover.

Ms. Moran reviewed with the Board members the progress the Agency and NFC have made for the transfer from MATCOM to NFC of responsibility for maintenance of the new record keeping system. NFC teams are finishing the overviews with their MATCOM counterparts this week. Formal training will begin in February; the first subject will be OmniPlus. Once trained, they will receive an in-depth briefing and will begin shadowing MATCOM personnel. It is too soon to forecast a takeover schedule.

Mr. Amelio noted that the turnover was going slower than he would have liked due to the turnover of NFC personnel. Two senior staff members left their positions in December. Mr. Lofink will update Mr. Amelio on NFC's progress in filling the vacancies on January 26th and Mr. Amelio will participate in the final interviews.

j. Fiduciary insurance and self-insurance.

Mr. Amelio reported that his staff is studying the issue of self-insurance and that he will report to the Board no later than August, as discussed earlier.

k. Loan Program Changes.

Mr. Amelio informed the Board members that the staff was working on the loan program changes and that a July 1st

implementation is planned. No major constituent group has complained about the proposed changes.

l. Legislation.

Mr. Amelio advised the Board members that a Senate subcommittee hearing is scheduled for February 9th at 2:00 p.m. Mr. Saul will make the majority of the remarks and Mr. Amelio will comment on operations. Officials from Barclays Global Investors and the Department of Labor will also testify.

He explained that Agency staff is continuing to discuss eliminating open seasons with Congressional staff members. Eliminating open seasons would require a loss of government revenue because, as currently proposed, it would lead to immediate agency contributions to the TSP on behalf of new employees. Mr. Saul asked why it was not feasible to eliminate open seasons but continue to defer agency contributions for new employees. Tom Trabucco explained that the agencies oppose this approach because it would be administratively difficult for them to track when to start agency TSP contributions.

Mr. Sanchez asked whether the Agency had been contacted regarding the President's proposal to invest Social Security funds in the markets. Mr. Saul said that we had not been contacted and that we needed to see what the President actually proposes; also, he believed it would not be proper for the Agency to insert itself into political issues and that if we are asked to help by explaining how we operate, we will.

m. Administrative matters.

Mr. Amelio advised the Board members that he is planning fiduciary training for the Board members in June or October.

He also explained that the Agency recently renewed its lease for a ten-year period. The renewal contract provides an allowance for renovations. His first priority will be to improve the lighting in the Board room and to increase its size in order to accommodate visitors more easily.

Mr. Amelio then provided the draft "TSP Highlights" to the Board members. Mr. Fink requested that Board members get a copy of every "TSP Highlights." Mr. Saul stated that he wants Board members to receive a monthly information package that includes information such as news releases, infor-

mation on legislative initiatives, information on Department of Labor TSP-related activity, and Plan news. Mr. Whiting added that, because Board members can't participate in the TSP, they don't automatically receive participant news and stressed the need for Board members to receive the same information given to participants. Mr. Amelio agreed that the requested information would be provided with the monthly Board mailing.

Mr. Saul asked whether we should consider competing the TSP's contract for printing. Mr. Amelio stated that we are examining that question and that it had only been in the last several months that we were authorized to compete printing work. Mr. Stiffler explained that our current printer, UNICOR (U.S. Department of Justice Federal Prison Industries, Inc.), is competitive in price but may not be as competitive with regard to meeting deadlines.

3. Proxy voting.

The members discussed Mr. Petrick's memorandum dated January 5, 2004, detailing the Agency's proxy voting policies and procedures and Ms. Woodruff's memorandum dated January 9, 2004, reviewing these policies and concluding that current practice complied with the fiduciary standards of FERSA. They agreed that, in the future, the Office of Benefits and Investments will attach the most recent report by Institutional Shareholder Services to its quarterly investment reports and a discussion of any deviation from established proxy voting policies.

4. Investment policy review.

By memorandum dated January 9, 2004, Mr. Petrick provided the Board members with a report on the performance of the G, C, F, S, and I Funds during the fourth quarter of 2003 and on the current G Fund policy of investing solely in short-term maturities. The members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

> WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f)(1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Fixed Income Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Fund, and the International Stock Index Investment Fund are affirmed without change.

There followed a brief discussion of the percentage contribution limitations and Mr. Petrick noted that, except for employees at the lowest pay grades, most participants contribute at the maximum allowable percentage rate. Mr. Saul suggested that, when these limitations are eliminated in 2006, the TSP extensively publicize their elimination.

5. Miscellaneous matters.

Mr. Amelio advised the Board members that the Treasury Department had asked him to consider using Treasury Inflation-Protected Securities (TIPS) in the Plan. He explained that TIPS would not fit in the G Fund but noted we are examining whether it could fit in the F Fund or whether it would require creation of a new fund.

Mr. Fink noted that we had some problems with production of the last participant statements and asked whether we were having any problems with the current production. Mr. Stiffler answered that we had some problems in testing but that they

have been fixed. Mr. Amelio remarked that we are extremely confident the system is working correctly.

Mr. Saul stated that he was concerned about the NFC taking over responsibility for the record keeping system and its ability to program for future enhancements. He said that he intended to give the NFC every opportunity to successfully take over operations from MATCOM but that the TSP owes it to the participants to look elsewhere if they fail. He stated that he also wants to see if we can save money with the parallel call center and, if so, we should examine whether we could save additional money by competing the contract for record keeping. He said that Mr. Lofink must know the NFC must complete a successful takeover from MATCOM in the next few months and provide better service more efficiently. Mr. Amelio stated he is confident that, after the October 2003 meeting, NFC and the Secretary of Agriculture are aware of these requirements.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:40 a.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Acting Secretary

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NOTE: BETA Court Reporting Services made a verbatim transcript of this meeting.