



MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 18, 2011

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 18, 2011, at 9:04 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Alejandro Sanchez of Florida, member; Michael D. Kennedy of Georgia, member; Dana K. Bilyeu of Nevada, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Renee Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the June 23, 2011 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the June 23, 2011 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on June 23, 2011 be approved.

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

a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). She informed the Board that the TSP has an 85.5% participation rate. Approximately 97.6% of newly hired civilian Federal employees are being automatically enrolled.

Ms. Wilder also reported that withdrawal activity has increased. Ms. Moran added that calls related to withdrawals represent one third of the TSP's call center volume. The duration of those calls has increased by about 4%.

Mr. Sanchez asked whether withdrawal activity includes partial withdrawals. Ms. Moran explained that withdrawal activity includes all types of withdrawals, including hardship and age-based in-service withdrawals.

Mr. Sanchez suggested that the poor economy may be driving an increase in withdrawal activity. Mr. Long agreed that the economy impacts

withdrawal activity, but suggested that the biggest driver is the fact that the baby boomers are reaching retirement age.

Mr. Saul asked whether the number of loan transactions has also been increasing. Ms. Wilder and Mr. Petrick explained that the number of loan transactions have been slowly increasing for some time. However, there have not been any significant deviations from the normal rate of increase.

b. Monthly Investment Performance Report

Ms. Ray reviewed the July 8, 2011 memorandum, entitled "June 2011 Performance Review" (attached). She reported that all of the BlackRock funds, except the I Fund, closely tracked their underlying indices. The I Fund had some tracking error as a result of the tax effect. She also reported that trading costs for June were low in all funds.

The G Fund rate has increased by an eighth of a percent to 2.63%. All of the equity funds were down in the month of June.

The F Fund was also down in June, but is now up almost 1%. This month, the C Fund is down 0.27%, the S Fund is up 0.14% and, the I Fund is down 2.74%.

Ms. Ray also reported that the number of interfund transfers rose 11% as participants moved over \$2 billion from the equity funds to the G and F Funds in June.

Ms. Ray noted that an independent audit showed no exceptions to BlackRock's proxy voting policy during the first quarter of 2011. She and Mr. Long then recommended reaffirmation of the current G Fund policy of investing solely in short-term maturities and of the current F, C, S, and I Fund investment policies. Thereafter, 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 Index Investment Fund, the Common Stock Index Investment

Fund, the Small Capitalization Stock Index Investment 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 Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

c. Legislative Report

Mr. Trabucco reported that Mr. Long has been invited by the House Committee on Oversight and Reform to present testimony on the status of the implementation of the Thrift Savings Plan Enhancement Act of 2009. That hearing is scheduled for July 27, 2011.

d. Quarterly Report on Vendor Financials

Mr. Petrick explained that this is the quarter in which he does not report on each individual vendor. Instead, he reports only exceptions and gives the Board members an opportunity to ask any questions they may have about any of the TSP's vendors. He also noted that The Active Network is now a public company and, therefore, the Board may discuss its financials in open session.

Mr. Kennedy observed that Serco's risk level is "moderate" and noted that the record keeping contract is coming up for rebid. He asked whether there are any competitors of the same size as Serco. Mr. Petrick explained that the TSP is wrapping up market research that will help with the development of an acquisition strategy for re-competing the record keeping contract. He added that TSP will take risk mitigation well into consideration. Mr. Long added that he is confident that there are other vendors who will be interested in this contract.

3. Fiscal Year 2012 Budget Estimate

Before presenting his budget estimate for 2012, Mr. Long reminded the Board members that they will not vote on the budget until September.

Mr. Long explained to the Board members that the TSP is not a steady-state organization. The TSP is in the midst of implementing a Roth option, moving the Agency to a new location, developing a succession plan in preparation for the simultaneous retirement of several office directors, developing an acquisition

strategy to recompute all of its major contracts (including record keeping, call centers, and the TSP's annuity provider) in the near future, introducing six new project managers to facilitate efficiency, and strengthening the TSP's information technology security program. He further explained that the TSP is accomplishing all of this on top of accomplishing its number one priority, which is to ensure that the TSP has the infrastructure, the technology, and the personnel to provide consistent, quality service to its 4.5 million participants 365 days a year.

Mr. Long explained that, ten years ago, the TSP was a monthly valuation plan that had one data center, a very simple investment structure, and one call center. Ten years ago, the TSP did not have the infrastructure to support an emergency or disaster situation.

Today, the TSP provides more services to more participants and has a more stable, reliable infrastructure. The TSP is now a daily-valuation plan that provides catch-up contributions, life cycle funds, beneficiary accounts, immediate contributions, automatic enrollment, annual participant statements, and an award-winning website. All of these services are now supported by a back-up data center, modern technology, multiple contractors performing record keeping, and dual call centers. The TSP also experienced a substantial growth in its number of participants, as well as the complexity of administering the plan, with the introduction of uniformed services participants in 2001.

Mr. Long explained that the TSP has been able to accomplish all of this while the fees charged to participants have remained almost flat. The gross administrative expenses in 2005, 2006, 2007, 2008, 2009, and 2010 were 6.2 basis points, 4.4 basis points, 3.5 basis points, 4.3 basis points, 5.2 basis points, and 4.8 basis points, respectively. Mr. Long noted that the fee charged to participants is actually less than the gross administrative expense because of forfeitures.

The estimated gross administrative expense for 2011 is 4.5 basis points and the projected gross administrative expense, assuming zero market growth, for 2012 is 4.8 basis points. The bottom line, Mr. Long said, is more services, more participants, same fees.

Mr. Long reminded the Board that the 2011 budget was frozen at the 2010 level, but that he requested an adjustment of \$1.5 million for test tools. Mr. Saul inquired about the status of the test tools. Mr. Long explained that the test tools will be acquired before the end of September.

Mr. Long also noted that many items were removed from the 2011 budget. These included informational materials for participants, contingency funds, and refreshes to data center servers and data center hardware.

Mr. Saul asked for a status update on an educational DVD that the TSP anticipated sending to automatic enrollees who keep their money entirely in the

G Fund. Ms. Moran said that the Office of Participant Services plans to mail the DVD in September.

Mr. Saul asked if the DVD would be mailed to participants who are not new enrollees. Ms. Moran explained that those individuals would receive a DVD as the budget permits. Mr. Saul asked if the TSP could save money by mailing the DVD with the annual statements. Mr. Long explained that the annual statement is sent to all of the TSP's participants and that the cost of also mailing a DVD to all 4.5 million participants would be astronomical. Ms. Moran further explained that, as a practical matter, the annual statement and the DVD would have to be packaged separately.

Ms. Bilyeu asked whether the TSP should consider making the L Fund, instead of the G Fund, the default investment option. Mr. Long explained that the Board proposed legislation some years ago that would have made the L Fund the default investment option. He suggested that the Board revisit this issue.

Mr. Long reminded the Board members that the May mid-year budget memorandum presented an initial estimate for FY 2012 of \$147.2 million, which would be an increase from the prior year's budget. He identified several reasons for this increase. First, the refresh of data center servers and data center hardware can no longer be postponed, as it was postponed last year. Second, implementation of the Roth feature has increased operational costs. Third, moving the Agency to a new location will result in a one-time expenditure. However, Mr. Long explained that the TSP will save money over a 10 year period by moving to the new location. He also explained that the estimated FY 2012 budget includes the cost of several open positions that the Agency has not yet filled.

Ms. Bilyeu asked what positions are open and why the TSP is having difficulty filling them. Mr. Long explained that the TSP has positions open in IT, accounting, and human resources. He also explained that the TSP has difficulty attracting talent because of challenges in terms of making the TSP's mission interesting relative to working in the private sector or for another government entity.

Mr. Saul asked what "technology refresh" means. Mr. Hagerty explained that the TSP has equipment that is reaching end of life because it needs to be refreshed every three to five years. Mr. Saul then inquired about the status of the mainframes. Mr. Hagerty said that the mainframes will last through FY 2012, but will likely need to be refreshed in FY 2013.

Mr. Long explained that money spent on IT systems modernization has kept the TSP operating when it would otherwise have experienced outages. It allows the TSP to reroute work when communication lines get cut, hardware fails, or servers go down.

Mr. Kennedy asked whether the TSP can predict its technology needs over the next five years. He suggested that the Board and the TSP should look at technology from a holistic perspective instead of reacting to technology needs on an annual basis. Mr. Long agreed. Mr. Long said that he is committed to extending the strategic plan and budget outlook beyond the current and immediately subsequent fiscal year.

Mr. Long reminded the Board that they requested a prioritized list of options to reduce the FY 2012 budget estimate. He then discussed those options. They include internalizing invoice services, canceling the acquisition of a replacement for the web content management system, canceling reorganization plans to create a separate office that handles participant communications, canceling plans to hire an additional IT security professional, removing 60% of the contingency budget items for IT equipment, reducing contingency funds for postage, canceling plans to create a separate office for Enterprise Risk Management, canceling acquisition of services and software to assess website vulnerabilities, and canceling plans to hire a human resources official. All of these options together would bring the estimated FY 2012 budget down to \$145.6 million.

Mr. Kennedy observed that implementing some of the budget reduction options would save money in the short term, but would cost the TSP more money in the long run. He pointed out that, by cutting out funding for investments in modern approaches to communication, the TSP is simply putting off that decision into the future. He explained that getting ahead of technology today will make the TSP more efficient in future. Mr. Long agreed, and pointed out that web transactions cost less than telephone transactions.

Mr. Saul observed that the TSP is growing in ways that appear to be necessary. However, he wondered if the TSP may have employees whose job functions are no longer necessary as a result of changes that have taken place. He reiterated that he is uncomfortable approving a budget increase of over 10% while the economy remains unstable.

Mr. Long reiterated that the fees charged to participants have remained nearly constant while the number of participants the TSP serves and the number of services the TSP offers has grown. That means the TSP has grown more efficient, he explained.

Mr. Saul suggested that the TSP could still do more with less. He said that the TSP could have taken invoicing services in-house years ago in order to save money. He wondered whether there are similar changes that could be made to save money. Mr. Long pointed out that taking invoicing services in-house would not have saved money in the past. The reason it will save money now is that the National Business Center has increased its fees for invoicing.

Ms. Bilyeu observed that record keeping costs represent approximately 80% of the budget. She then pointed out that the record keeping costs alone in 2011 and 2012 are approximately equal to the entire budget in 2008 and very close to the entire budget in 2009.

Mr. Sanchez asked Mr. Long to define "record keeping." Mr. Long explained that record keeping includes items such as data center hardware, software, and support; operations benefit processing (mail, data entry, printing, etc.); systems accounting; and costs associated with the call centers. Ms. Bilyeu asked how much record keeping activity is performed in-house. Mr. Long explained that virtually all of the TSP's record keeping services are performed by contractors.

Mr. Saul and Mr. Sanchez reminded Mr. Long that he has requested a budget increase each year since 2008. Mr. Sanchez pointed out that the TSP's budget increased 24 percent, 6 percent, 14 percent, and 1 percent in 2008, 2009, 2010, and 2011, respectively. He added that Mr. Long is now requesting a 10-12% increase for 2012.

Mr. Sanchez surmised that no private sector employer or governmental entity is experiencing a similar growth in its budget. Mr. Saul and Mr. Sanchez concluded that they cannot support these kinds of budget increases while the country is facing high unemployment rates and a deficit crisis.

4. Closed Session

On a vote taken by the Secretary, the members closed the meeting at 10:48 a.m. for executive session.

At 11:12 a.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 Chairman Saul adjourned the meeting at 11:12 a.m.

MOTION: That this meeting be adjourned.


Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics

2. June 2011 Performance Review – G, F, C, S, I, and L Fund
3. Quarterly Financial Assessment of TSP's Primary Vendors – First Quarter 2011
4. Preview of Fiscal 2012 Budget Estimate (PowerPoint Presentation)
5. Fiscal Year 2011 Mid-Year Budget Review and Estimates for Fiscal Year 2012