



MINUTES OF THE MEETING OF THE BOARD MEMBERS

June 25, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on June 25, 2012, at 11:00 a.m., Eastern Time. Parts of the meeting were open to the public at the Board's offices at 77 K Street, N.E. and parts were closed to the public. In attendance were Dana K. Bilyeu of Nevada, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; Gregory T. Long, Executive Director; James B. Petrick, Secretary and General Counsel; Susan C. Crowder, Acting Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Kimberly A. Weaver, Director, External Affairs; Mark E. Walther, Chief Technology Officer; Renee C. Wilder, Director, Research and Strategic Planning; Thomas K. Emswiler, Director, Office of Benefits; Sophie T. Dmuchowski, Deputy Director, Office of Communications; Gisile Goethe, Acting Director, Resource Management; Anne Beemer, Acting Director, Enterprise Risk Management; Toni Bush-Neal, Assistant to the Director.

1. Approval of the minutes of the April 30, 2012 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the May 21, 2012 Board member meeting, and for the amended minutes of the April 30, 2012 meeting.

MOTION: That the minutes of the Board member meeting that was held on May 21, 2012, and the amended minutes of the Board member meeting that was held April 30, 2012, 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). The net cash flow into the plan was approximately \$900 million in May, and the plan assets decreased slightly to \$305 billion, a reflection of market activity. The FERS participation rate remained at 86.4%, and of particular note, the participation rate for active duty uniform services members reached 40%, a milestone for Uniformed Services participation.

Mr. McCray noted that the ready reserve also saw a significant increase, and Ms. Wilder explained that the ready reserve participation number fluctuates month to month because of the nature of their military service. The Active Duty number is a more stable indicator. The auto enrolled participation rates continue

to be high, with 97% of new federal employees actively participating in the plan. Ms. Bilyeu recommended a consolidated trend line report to better display the information. Chairmen Kennedy noted that a 97% rate for new employees is extremely high, and Ms. Wilder predicted that the level would decrease, but would still remain high, leveling off to 95-96%.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "May 2012 Performance Review – G, F, C, S, I, and L Funds" (attached). The S Fund outperformed the index by 7 basis points. The I Fund outperformed the index by 8 basis points, and by 22 points year-to-date. Much of the tracking error in the I Fund is the result of the tax effect. The index is reduced for taxes paid but the TSP does not pay taxes.

The F Fund trading costs are high at 13 basis points. Lower liquidity in the bond market produced higher trading costs for the F Fund at the beginning of the year.

The G Fund rate declined to 1-3/8%. Ms. Ray noted that although this is higher than most places in the market, it is the lowest it has ever been. The C Fund, S Fund, and I Fund were down 6%, 7%, and 11%, respectively. Since the report, there has been a slight increase in all three Funds. Most of the funds are still positive year-to-date; the I Fund is up .03%, the C Fund is up approximately 7%, and the S Fund is up over 6%.

c. Budget Discussion

Mr. Long explained that budget discussions would consist of two segments, the Interim Fiscal 2012 update and the first look at the future budget. Ms. Crowder presented "FY 2012 Budget Report" (attached), and explained that the Agency divides the budget categories into four interest groups: recordkeeping, communication, personnel, and general expenses. Overall, the Agency has committed 84% of the approved budget as of May 31, 2012, and will be spending the rest in the last quarter of FY 2012.

Mr. Long then presented a "Strategic Budget Preview." He stated the Agency's mission, to administer the TSP solely in the interest of Participants and Beneficiaries. He emphasized that the Agency has expectations for significant growth going forward. From both an asset and participant standpoint, the TSP will be growing exponentially. Mr. Long mentioned that there were upcoming strategic initiatives for the Agency, including post-Roth implementation, human capital, Enterprise Risk Strategy, and the Integrated Financial Management System.

Mr. Walther discussed updating the hardware necessary to run the plan, and a forecasted mainframe refresh in fiscal year 2014. His department will be

conducting a capacity planning study this calendar year to help validate the end-of-life assumptions for the current mainframe purchased in 2007. Mr. Walther noted that the current system has adequate capacity and backup to reach the end of fiscal year 2013. Chairman Kennedy asked if there would be another mainframe refresh after the one in 2014. Mr. Walther explained that is something the Agency is always considering, and falls under a larger question of how the Agency can ensure that it continues to have the accuracy and reliability of IT recordkeeping for the participants, and considers the best ways to achieve that goal. Different options are being considered, including the tradeoffs involved in leasing versus purchasing, and a mainframe versus open system computing architecture.

Mr. Long presented a first look at budget proposals for the next several years, through fiscal year 2017. Mr. Long noted that the proposed budgets make a distinction between what it costs to run the business on a day-to-day basis, accommodating for growth, and proposals for new initiatives arising from a long term strategic plan for the Agency. Taking those initiatives into account, fiscal year 2013 would be the highest budget request, with significant additions to staff in that year, for a total request of \$191 million. Mr. Long stated that it was a meaningful but prudent budget increase, and outlined potential risks of not moving forward with an increased budget. Chairman Kennedy asked for different levels of projected budgets, including one where budget maintained a constant expense ratio of 4.4 basis points, and one with an increase to 5.6 basis points, and noted it would be helpful to have the initiatives prioritized. Mr. Long agreed and emphasized that it is crucial to remain at a low cost to the participants, but in the past some decisions to seek a lower cost came at the expense of important capabilities.

d. Legislative Report

Ms. Weaver reported that the bill addressing phased retirements had been amended to allow people moving into a phased retirement to use their annual leave and transfer it into the Thrift Savings Plan. The next step is for it to appear on the House floor. The Committee report on the bill containing the IRS levy amendment is expected to be filed shortly.

e. Data Breach Update

Mr. Long explained that on May 25th, the Agency announced that a computer belonging to an Agency contractor was the victim of a cyber attack. The Agency notified all affected individuals by mail, and the Agency and contractor took immediate action to address the incident and made adjustments to computer security. Ms. Bilyeu asked if there had been any reports of actual impact to individual members, and Mr. Long said to date there is no evidence that the data has been misused. Chairman Kennedy remarked that he thinks Mr. Long and the Agency have been proactive about communicating with the various parties. Mr. Long expressed his regret about the event, but stated he was impressed with how it was handled by the Agency, and that lessons will be learned from the incident.

f. Calendar

Mr. Long and the Board members discussed upcoming calendar and scheduling issues.

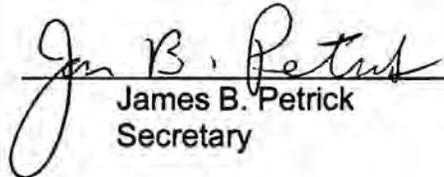
4. Closed Session

On a vote taken by the Chairman, the members closed the meeting at 11:57 a.m. for executive session.

At 12:31 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 Chairman Kennedy adjourned the meeting at 12:31 p.m.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. May 2012 Performance Review –G, F, C, S, I, and L Funds
3. FY 2012 Budget Update
4. Strategic Budget Preview FY 2013-2017