Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 20, 2007, at 9:00 a.m., Eastern Standard 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 Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Terrence A. Duffy, Member (via telephone); Thomas K. Emshiler, Acting Executive Director and General Counsel; Mark A. Hagerty, Chief Information Officer; Gregory T. Long, Director of Product Development; Pamela Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Stephen Sutterlein, Acting Secretary and Associate General Counsel; and Thomas J. Trabucco, Director, External Affairs.

1. **Approval of the minutes of the January 16, 2007 Board member meeting.**

Chairman Saul entertained a motion for approval of the minutes of the January 16, 2006 Board member meeting. The following motion was made, seconded, and adopted without objection:

**MOTION:** That the minutes of the Board member meeting held on January 16, 2007, be approved.

2. **Award to Former Executive Director**

Mr. Saul presented Mr. Gary Amelio, former Executive Director, with a plaque signed by the Board Members and the senior staff expressing thanks for his accomplishments as Executive Director. Mr. Saul praised Mr. Amelio for his leadership and the introduction of the L Funds, the call centers, moving out of the National Finance Center, and the backup mainframe in Pittsburgh.

3. **Thrift Savings Plan activity report by the Executive Director.**

   a. **Monthly Investment Activity Report.**

Ms. Ray noted that the I Fund outperformed the index by 62 basis points due to a fair valuation adjustment. The dollar amount traded in the I Fund was over $1 billion dollars in January. The C Fund had $629 million traded. Trading in the I Fund relative to the C Fund is especially notable given the much smaller size of the I Fund.

Mr. Whiting asked if more education would make a difference to slow the amount of trading. Ms. Moran stated that there was ongoing education and that we wanted participants in the L Funds. Mr. Duffy expressed concern that the illiquidity associated with a REIT Fund would be very problematic. He said the broad diversity of the Plan’s Funds makes more sense. Ms. Ray highlighted that the L Fund performance chart was changed from a cumulative to an annualized chart. Mr. Saul expressed a desire for a chart to also show a year-to-date return. Mr. Sanchez wanted to know if a participant could go online and see the chart. Ms. Ray said that they do not see charts but the participants are provided the monthly returns and the last 12 months’ returns. Ms. Moran said that charts are not used in order to discourage people from chasing returns. We emphasize the L Funds and encourage our participants to stay in the appropriate L Fund. Mr. Saul said that most people should get into the L Funds and stay there.

Ms. Ray noted that 11% of the FERS balances are allocated to the I Fund compared to 9% of CSRS balances and 14% for Uniformed Services. She noted that a good rule of thumb is to have 15 – 20% of your equity balances in international stocks. Ms. Ray reported that $771 million were transferred into the I Fund and $589 million into the L Funds.

Mr. Saul remarked that the Plan grew by almost $2 billion in January. Ms. Ray remarked that there are almost 500,000 participants and $18 billion in the L Funds.

4. Department of Labor Reports

a. Board Review of the Reports

Mr. Petrick reported on the two DOL reports. The first report, dated January 31, 2007, concerned the Clintwood Call Center (attached). Mr. Petrick provided an overall charac-
terization that the call center was doing the job quite well. The report had a few recommendations concerning access controls. Mr. Sanchez asked if there was anything that truly concerned Mr. Petrick. Mr. Petrick stated that all of the things mentioned in the report are being addressed both in the data security area and physical controls.

There will always be, particularly in the security area, ongoing work. Mr. Petrick pointed out that the call center was brought up quickly in response to Hurricane Katrina and the fact that there were so few recommendations is a testament to the success of bringing it on board. Mr. Sanchez queried if the call center made it through that disaster then they could make it through anything which Mr. Petrick affirmed. Mr. Petrick said that last year’s audit of Cumberland and this audit of Clintwood should give the Board a great deal of comfort.

Mr. Saul commented on how much better these two call centers work and complement each other compared to having only one at the National Finance Center which had no backup call center.

Mr. Petrick commented on the other audit entitled Employee Benefit Security Administration Review of the Thrift Savings Plan Disaster Recovery and Continuity of Operations dated February 5, 2007 (attached). This audit concentrated on the backup recovery site. While the report indicated that the site was operating perfectly adequately, there were some recommendations. There were questions about the documentation for the procurement of the site, some of the documentation of the operations of the site, and how the site is integrated into our security plans.

Mr. Hagerty provided a general overview of the audit and its recommendations. All of the security plans had an outside consultant review them against the NIST guidelines. We will do a formal risk assessment at the site even though when the site was chosen, Gary Amelio and Larry Stiffler went to the site and found that the security was adequate. Mr. Hagerty addressed some concerns with the location of bags of ice melt which, while it is non-combustible, were removed from our area of the leased building.

Mr. Hagerty reported on the successful continuity of operations test on the backup site last year and the training for the continuity of operations planning. Mr. Saul asked how often did we test and how soon would we be up and running if we
had problems in Reston. Mr. Hagerty replied that we test once a year depending on other workload activities and that we would be operational in four hours if there were problems in Reston. Mr. Whiting asked about actually shutting down Reston and switching to Pittsburgh to test the system. Mr. Hagerty replied that there is some testing every night due to the data replication. He said that we study the best way to test the entire system so that we have confidence in the system. Mr. Saul wanted to know why the test would not be until next Fall. Mr. Hagerty replied that it was a resource issue, but that due to the test documentation we were very confident that the system would work.

Mr. Whiting asked if we were still using backup tapes. Mr. Hagerty replied that the tapes are a second-tier backup while our primary backup is live and on disk in Pittsburgh. We are never more than an hour behind in terms of the age of our data. Two sets of data are kept on spinning disk drives in two separate locations. There is a backup of the Reston data, which is already in Pittsburgh. In case of disk problems in Pittsburgh, we could get the tapes from Iron Mountain. In response to a question from Mr. Whiting on having a second-layer backup system on a disk system, Mr. Hagerty replied that another disk system would be expensive; 80% of disaster recovery plans use tapes as opposed to disk-to-disk, and the tapes are very reliable.

Mr. Sanchez asked if we ever test the physical security. Mr. Hagerty replied that he makes frequent site visits. He verifies the doors are secure, that sign in and sign out logs are used, and ID is checked to ensure our areas are secure within the facility. Mr. Sanchez remarked that he was impressed when he visited, but wanted to ensure that it remains secure.

Mr. Saul remarked that there is never a perfect security situation but we listen to the experts. This Plan was in jeopardy when we were using New Orleans. There is a lot less risk now. Mr. Petrick stated the auditors would have liked to have seen more documentation for the sole source justification for Pittsburgh, but the procurement was justified. Mr. Whiting stressed the importance of doing a sole source for Pittsburgh due to the risk. Mr. Sanchez also expressed concern when he and the others learned that our processing was done in New Orleans which is 3 feet below sea level.

Mr. Saul asked if we are doing the best we can with modern technology to assure the best possible systems are
in place. Mr. Hagerty replied absolutely and that a cultural change has taken place in TSP. Business assurance is built into everything. We constantly evaluate and pay attention and make sure we make prudent investments in security. Mr. Saul replied there is a happy medium on our spending for security and that we shouldn't waste our participants' money on esoteric systems.

b. DOL's Presentation

Mr. Saul then welcomed the Labor Department auditors into the meeting to discuss the two audits and thanked them for their help in making this the best system for the participants.

Mr. Dingwall introduced Bill Bailey, Senior Auditor of the Department of Labor; then from KPMG, Diane Dudley Client Services Partner, Heather Flanagan, Engagement Partner, Don Farineau, EDP Partner, Tess Pasaoa, Manager, and Mark Munster, Computer Systems Analyst. Mr. Dingwell announced that the auditors found no instances of material noncompliance with the Federal Employees' Retirement System Act.

Mr. Dingwall commented that they reviewed Barclays Global Investors (BGI) which manages the TSP index funds. BGI has controls in place to ensure timely and complete processing of the TSP transactions and that there were no exceptions found whatsoever. They also reviewed the G Fund and the Treasury operations and found controls in place to make sure the Treasury was properly operating the G Fund. They also reviewed the call center at Clintwood and found it was meeting its contractual requirements. They also reviewed the system security and recoverability issues with respect to the backup facility in Pittsburgh and observed there were some housekeeping matters of control and access risks that needed to be strengthened. Lastly, they reviewed the Army and its participation in TSP. They noticed some inconsistencies in the participation rates between the Uniformed Services and some inconsistencies in the types of training. Mr. Dingwall then turned the report over to Mr. Bailey.

Mr. Bailey pointed out that Mr. Dingwall had already gone over p. 4 of the EBSA report (attached) which covered the overall assessment and that he would cover the summary of significant issues on p. 5. Three of the four issues involving system security and recoverability were communicated last year to the Board and there is movement toward closing them. The TSP
security plan audit is nearly complete. DOL recommends that the Agency update and approve the plan, based upon the Agency's most recent risk assessment. Also the Agency should consider controls over contractors for ensuring authorized access and system changes.

Mr. Bailey recommended that the Agency conduct and document a risk assessment of the Pittsburgh disaster recovery site. He recommended a business continuity document and a comprehensive service continuity testing at the disaster recovery site. He noted that there are backup tapes of information which should be tested.

Mr. Bailey commented on the review of the Army which is the largest organization in the Uniformed Services. The Army has provided responses to the audit report and the report will be issued shortly. In comparing the Army to the Marines, which had been reviewed earlier, there is a concern that the training and updating of personnel responsible for TSP operations should be strengthened. Those comments are directed at the Uniformed Services and not at the Board. Mr. Sanchez asked if the training issue was caused by turnover and why the Army couldn't incorporate TSP training into its base processing system. Mr. Bailey responded that it was a budget issue; specifically, there is no line item for TSP training. The Army has gone into a media mode and while it is supposed to hold training for deployment, it sometimes doesn't get done in a rapid deployment situation. Sometimes the National Guard provides TSP training at its annual training and sometimes it doesn't.

Mr. Whiting commented that shouldn't the report heading be Common Issues for the Marine Corps and the Army while Mr. Bailey responded that it could be said the Uniformed Services thus far reviewed. Mr. Whiting pointed out that the Navy, Air Force, and NOAA are doing better. He said we don't control their budget, but some of the Uniformed Services are doing a great job.

Mr. Saul wanted information about the Army test program with matching contributions and expressed surprise that this pilot program had not been publicized. Mr. Trabucco said that we were receiving matching contributions from Uniformed Services and that this was a recruitment device. The Army publicized the program within the pilot group and that it isn't a broad-based public relations program.
Ms. Moran said that she has asked for an update from the Army and that this program is for only certain specialties. As part of a broader communication effort, we have worked on training the Army to train their personnel. Mr. Sanchez said that this was an important issue to the Board and that the Army should be using this program as a recruitment tool. Mr. Trabucco said that this was a Congressional initiative and that Congress was watching it. Mr. Whiting asked if we could track participation rates among new entrants into the military versus the existing ones. Ms. Moran responded that the Services would have to provide that information. Mr. Whiting then asked Mr. Bailey to look into that. Mr. Bailey responded that they did not have the information but that they would like to look at why some Services participate at a higher rate. Mr. Sanchez asked if Congress had thought about matching contributions for the Services to which Mr. Trabucco replied that they would evaluate the Army pilot program.

Mr. Saul wanted an update on the Army pilot program, if possible, for the next meeting from Mr. Trabucco. A matching program would help the Services with recruitment and higher participation rates would be good for the Plan as well. The participation rates were 22% for the Army, 47.3% for the Navy, 32% for the Marines, 29.8% for the Air Force, and 27% for the Coast Guard. Mr. Sanchez remarked that this is one time where interservice rivalries would be a good thing and that he wished that the Board could go to the Service Academies.

Ms. Moran discussed how Mr. Amelio had reached out to the Services and why we push to get invited to do various training sessions. Mr. Emswiler told how Mr. Amelio had met with the Assistant Secretary for Manpower and Reserve Affairs for each Service and tried to generate interservice rivalry. Mr. Saul recommended that Mr. Emswiler consider helping Ms. Moran's group on this issue due to his military experience. Mr. Saul remarked that there was only so much the Services can do at this time due to the war, but that we should follow up on the Army matching contributions pilot program.

Mr. Trabucco commented that comparing CSRS to Uniformed Services at the five-year point of eligibility showed 30% participation in 1992, for CSRS participants and the Uniformed Services today is at a fairly good number compared to the historical CSRS data. Mr. Long said that there was almost a 25% participation rate among the Uniformed Services. Mr. Saul said that without a match, this number was not a flop, but questioned could it be better.
Mr. Whiting wanted to know if the military personnel in a war zone get combat pay. Mr. Emswiler replied that they receive a small hostile fire pay allowance but most of their pay is tax free for service in a combat zone. Mr. Whiting said that while they were receiving the additional money that they should take advantage of it by contributing a larger amount into TSP. Mr. Long pointed out that the Uniformed Services had the highest deferral rates when compared to FERS and CSRS, part of which may be caused by the combat zone tax exclusion.

Mr. Sanchez thanked Mr. Bailey for putting this on the agenda, because the Board will keep discussing this issue.

Mr. Bailey then discussed some of the future initiatives found on page 6 of the report. Mr. Bailey said that they would first assess the system enhancement and software change controls related to the TSP recordkeeping system, then review two agencies--GAO and the CIA--and if they have funding they would look at the various recordkeeping software process and controls again.

Mr. Whiting asked about the potential funding shortfall. Mr. Dingwall replied that the audit program is highly discretionary and is in large part money driven. He was not aware how much money will be available for the auditing of the Plan. Mr. Whiting said that he and the Board valued the audits that DOL and KPMG performed. Mr. Dingwall replied that the Board has done a great job in implementing the DOL recommendations.

Ms. Flanagan discussed the 2007 audit plan. They are currently performing a full-scale audit of computer access controls and related special projects on data vulnerability. They are also in the process of completing their on-site field work on TSP annuity operations of Metropolitan Life. There will be a limited scope audit of Board and staff operations that will begin in June 2007. They plan to audit the GAO in FY 2008.

Ms. Flanagan pointed out that the total number of open recommendations has remained relatively constant since the report last February. Mr. Petrick thanked Ms. Flanagan for working diligently with Agency staff to close a lot of those old audit recommendations and complimented DOL for addressing those audit recommendations.
Mr. Saul, on behalf of the Board, thanked the whole team for coming in and being a partner in serving the participants.

Mr. Fink asked if we had ever thought about having an outside security firm to evaluate our system and its vulnerability. Mr. Hagerty responded that we have already done so and that DOL as part of their audit is also doing that. Mr. Fink asked if there are national firms that just do security audits. What level of confidence do we have that DOL is taking care of that?

Mr. Dingwall replied that the audit program has concerned itself with security throughout TSP’s recordkeeping functions. DOL doesn’t necessarily have a review that says this is a very secure system. He pointed out the key-logging incident that is addressed on the TSP website and noted that DOL is always vigilant and looks at security as part of its work. Mr. Whiting stated that the key-logging incident was not a breach of the TSP system.

Mr. Fink asked if there was an obligation to have a security outfit do a review or if DOL has adequately taken care of the review. Mr. Dingwall said that is up to the Board to assess. Mr. Farineau pointed out that the Board already has a vendor in place that will be carrying out assessments of the security posture and will try to break into our system.

This test will be a means to measure the strength of security controls. Mr. Hagerty commented that while these tests are resource consuming, they help us find weaknesses, and gaps, and help us remain vigilant.

3b. Monthly Participation Activity.

Mr. Long reviewed the report on TSP statistics. See “Thrift Savings Fund Statistics” (attached). He noted that the plan was over the $210 billion mark and that the number of FERS participants increased from 85.2% to 85.8%. He also noted that CSRS participants increased from 37.4% to 37.9% which is unusual. A hypothesis is that 2006 was the first year that CSRS participants could contribute $15,000. A substantial number reached that figure in October or November and therefore had zero contributions in December but started contributing again in January.
Mr. Saul remarked on the growth of the Plan and stated it is possible due to market growth and cash flow for the Plan to grow $40 to $50 billion this year. Mr. Long replied that it was in the realm of possibility, but that growth would depend on the market performance.

Mr. Trabucco also remarked on the number of participants growing by 29,000 in two months which if multiplied by 6 would mean 175,000 more participants. Mr. Saul commented that this is the best participant survey you can have since people are voting with their pocketbooks.

Mr. Long remarked that we are the largest defined contribution plan in the United States while CALPERS, a defined benefit plan, is the largest pension fund at approximately $240 billion. While we will probably surpass CALPERS, our primary goal is to deliver great service at low cost to participants. There are no significant changes in the Uniformed Services except that Public Health Service, a small population, had an increase in participation from 57% to 66%. There are a lot of doctors who probably reached their maximum allowable contributions in October and November and who restarted in January.

Mr. Sanchez asked if there was a report that broke down participation between enlisted and officer ranks. Mr. Long had not seen that information but that the Office of the Actuary at DOD may have that figure.

3c. Legislative Report.

Mr. Trabucco had nothing to report.

5. New Business.

a. Annual Participant Statements.

Mr. Long reported on a memo dated February 6, 2007 (attached), entitled Annual Participant Statement. As an overview, in 2003, the TSP changed its policy from delivering statements in the mail to an electronic, paperless delivery of statements that saved a significant amount of money, about $7 to $8 million dollars in 2006. However, due to changes in the Pension Protection Act, fraud concerns, and concerns about notification requirements he recommended that we deliver an annual paper statement to our participants who have an account balance. It will cost approximately $2.2 to $2.6 million. He asked for
Board approval to continue work on the proposal to further explore the costs and programming issues. The statement would be mailed out in late January or early February of next year, based on the calendar year end numbers.

Mr. Saul queried whether this issue was part of the participant survey. Mr. Long replied that the survey did tell us that 16% of participants rarely or never review their account. This was odd since only 10% of the participants receive a mailed participant statement.

Mr. Sanchez questioned what assurances we would have that mailing participant statements would reach the 16% of our participants who do not check their accounts; especially in light of the cost. He also asked whether there was another, better way to get to that 16%. Mr. Long said that there were no assurances, but that we should make our best efforts and that it is a judgment call by the Board to determine if it is a reasonable expense to try to reach the 16% of the population who do not check their accounts and to determine the accuracy of our addresses. Since we are not an ERISA plan, we don’t have to send out statements, but it’s a judgment call. Ms. Moran commented that the annual statement would also give an opportunity to provide educational materials to the entire population or to encourage more contribution. This will provide a way of communicating once a year, with our entire population.

Mr. Sanchez replied that the comments by Ms. Moran were helpful, but he still wanted to make sure the cost is justified. Mr. Whiting added that 10% of the surveys were returned which translates to 370,000 bad addresses among the entire TSP population and that this would be a good way to check the addresses we have for participants.

Mr. Sanchez asked if we had tried to get correct addresses. Ms. Moran replied that we compare the U.S. Postal Services forwarding address database with our database and we send out postcards quarterly to try to get people to update their addresses with us.

Mr. Saul said that it’s the sense of the Board to allow Mr. Long to work on the proposal.


Ms. Moran provided a power point presentation (attached) on the functions that were moved from the National
Finance Center to SI International, education, and some of the communication accomplishments.

Ms. Moran reported that there were over 744 different training sessions over the past three years. The call centers in 2006 took almost three million phone calls into the automated Thriftline, of which two million callers opted to talk to our PSR representatives. One third of the phone calls dealt with loans, one third dealt with withdrawals, and one third dealt with everything else.

Ms. Moran commented on the popularity of the web to execute transactions but that loans and withdrawals were still largely paper due to the requirement of spousal consent and because transferring money out of the TSP to an IRA or 401(k) plan requires receiving information from the financial institution.

Ms. Moran stated that 1.1 million letters and forms are received by our Service Bureau in Birmingham. Forty percent come in by fax and are directly input to the TSP imaging system. In response to Mr. Whiting, Ms. Moran replied that we do not take electronic signatures, but that we are looking into getting notarized signatures as well as looking into establishing a profile for each participant so that they would have to tell us in advance that they want to be able to execute money transactions on the website.

Ms. Moran stated that last year almost 21,000 rollovers were processed into TSP. This is an explicit vote of confidence for the TSP, that people are willing to take money out of their old plans and send it to us. Mr. Sanchez said that it was a credit to Ms. Moran and the team and commented on the increased education process.

Ms. Moran reported that the Legal Processing Unit processed about 2,100 court orders, 684 powers of attorney, and 1,100 exceptions to spouses' rights. She then provided an overview of the Death Benefits section. She then discussed the Agency Technical Services and the approximate 980 journal vouchers through which we get the approval to take the money from the agencies. The majority of the vouchers, 76% are now processed online, 23% are electronic transmission, and paper vouchers are only 2%.

Ms. Moran described the TSP website. There are approximately 6 million hits a month.
Ms. Moran then went over communications and the need to change every form, booklet, and pamphlet because of address changes from the National Finance Center. Participant statements are now multi-colored. TSP set up postage accounts with the Postal Service. We pre-pay the money and then draw down what we need at the time we need it. It helps us monitor costs and manage how much money we are spending on postage.

Ms. Moran briefed on the mailing of the L Fund DVD to the Uniformed Services as well as future targeted mailings on the L Funds. She pointed out the new Uniformed Services Recruitment pamphlet targeted at parents and how we will send them to the Uniformed Services to place in their carousels. She also explained that we are looking at ways to discuss TSP with military spouses. April is Financial Literacy month. The Spring poster will concentrate on financial literacy which will complement OPM’s retirement education programs.

Ms. Moran commented on this year being involved in the support of the security enhancements for the web and a redesign of our forms to improve optical character recognition, besides bar coding for forms and notices. Lastly website redesign to put in a search engine and e-mail notifications when our website changes were discussed. She commented that we do not want to look like other financial websites because it might encourage our participants to expect mutual fund-like activity and might encourage day trading. Mr. Long added that we don’t want to encourage day trading but that it makes sense to redesign the look of our website.

Mr. Whiting asked if the TSP and FRTIB websites would remain separate. Ms. Moran replied at some point we will look at the FRTIB site, but that is on the backburner.

Mr. Sanchez commented on the tremendous transformation in the printed materials and that it is excellent. The targeted marketing is an efficient use of participants’ resources and funds to educate.

Mr. Emswiler pointed out that while Ms. Moran’s statistics show how well things are going, it’s important to acknowledge her work in setting up SI and their staffs in a short time frame. She also has different contractors working together as a team which is impressive.
Mr. Saul complimented Ms. Moran on the report. Her team did a great job in the transition from the National Finance Center. She is on track with her new enhancements and she is doing a great job.

6. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of personnel matters.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 12:10 p.m.

MOTION: That this meeting be adjourned.

Stephen Suetterlein
Acting Secretary

NOTE: Ace-Federal Reporters, Inc. made a verbatim transcript of this meeting.

Attachments

1. Thrift Savings Fund Statistics
4. February 5, 2007 Letter to EBSA with enclosures
5. EBSA Presentation to the FRTIB, February 20, 2007
6. February 6, 2007 Memorandum on Annual Participant Statement
7. TSP Operations and Communications Powerpoint Slides