



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 19, 2008

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 19, 2008, at 9:04 a.m., Eastern Time. The meeting was at the Board's offices at 1250 H Street, N.W., Washington, D.C. Parts of the meeting were open to the public and parts of the meeting were closed to the public. In attendance were Thomas A. Fink of Alaska, member; Alejandro M. Sanchez of Florida, member; by telephone, Gordon J. Whiting of New York, 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; and Thomas J. Trabucco, Director, External Affairs. Also in attendance were Ian Dingwall and William Bailey from the Department of Labor and Diane Dudley and Heather Flanagan from KPMG.

1. Approval of the minutes of the January 22, 2008 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the January 22, 2008 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 22, 2008, be approved.

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

Prior to the formal reports, Mr. Long stated that he had prepared a letter to send with the annual participant statement. Attached. He noted that this was an excellent way to share information with our participants. Chairman Saul asked whether the letter would be posted on the Agency's website. Ms. Moran stated that they hadn't planned to because much of the information is in the quarterly TSP Highlights. Chairman Saul asked what the Agency would do with returned mail. Ms. Moran stated that all mail had been barcoded; the account number mailing was also barcoded. Barcoding allows us to quickly determine

to whom the returned mail pertains. These mailings reflect the beginning of our latest efforts to ensure we have valid addresses for our participants. If the participant is still employed by the Federal government, we will contact the employing agency to determine the participant's correct address. If the participant is separated, we will use the I.R.S. and S.S.A. databases to determine the correct address. Chairman Saul asked how many letters we expected to have returned. He was told that approximately 170,000 account mailers were returned to the Agency (approximately 22,000 of those had forwarding addresses which we used for follow-up). We expect to have about the same number of annual statements returned. Mr. Long said that the opportunity to verify addresses was one of the reasons he had advocated for the annual statement. Chairman Saul said this was a good opportunity and that the Agency should spend as much as is reasonably necessary to validate addresses. Mr. Long said that he would, but cautioned that we should never expect perfection. Mr. Sanchez complimented Mr. Long on the letter stating that it was short, to the point, and full of good information. Mr. Long commended Ms. Moran because she was the principal author of the letter. Mr. Sanchez added that this mailing would also allow us to confirm the addresses of participants who separated years ago and are now senior citizens. Mr. Long said that this was one of multiple avenues that the Agency was pursuing, to include matching with the Social Security Administration's death file. Mr. Fink asked Mr. Long to report on how many participant statements were returned and Mr. Long agreed to do so at a future Board member meeting.

Chairman Saul asked for an update on the website redesign project. Ms. Moran said that the Agency had hired a contractor to look at the website's design, and, in conjunction with Mr. Hagerty, they were evaluating the technical work that would be required. Ms. Moran noted that the project's goal was to give the website a more modern appearance and to make it easier to navigate. Chairman Saul asked for a timetable. Ms Moran stated that she expected to have recommendations from the contractor by late spring and they would then look at implementation. She expects the work will be completed this year.

Mr. Sanchez stated that he had discussed the TSP with several Federal employees he had met on the Metro and that he was pleased to report that they were very knowledgeable about it and that they especially liked the Lifecycle Funds because they didn't have investment expertise and the Lifecycle Funds allowed them to put their investments on "cruise control." Mr. Trabucco noted that the Sunday "Washington Post" had included an article

on planning for retirement in which three military couples were interviewed—all were TSP participants. Mr. Sanchez added that he had been in the Pentagon last week with Mr. Emswiler and that he had talked about the TSP with everyone he met.

a. Monthly Participant Activity Report.

Mr. Long reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Total assets under management have fallen to \$224 billion because of negative returns. The participation rate remained flat at 85.6 percent. The number of CSRS participants increased a little when participants whose contributions were stopped due to reaching the elective deferral limit in 2007 restarted their contributions in 2008. The uniformed services participation rate fell a little, but the total number of uniformed service participants increased a little (the number of members in the uniformed services increased during this period). Net expenses for the month were .0021 points (2/10 of a basis point). Chairman Saul asked whether this meant that, if this rate held constant, net expenses for the year would be 2.4 basis points. He was told that it would, but that net expenses could change, for example due to increased forfeitures. Mr. Sanchez asked whether January was the month in which most Federal employees retired and was told that January and December are the months in which the most turnover occurred.

b. Monthly Investment Performance Report.

Ms. Ray reviewed the February 8, 2008 memorandum (attached), entitled January 2008 Performance Review - G, F, C, S, I and L Funds."

She noted that the Fixed Income Fund outperformed its index by 10 basis points for the month due to sampling; the Small-Cap Fund underperformed its index by 10 basis points due to sampling; and the International Fund outperformed its index by 81 basis points due to a fair value adjustment. Chairman Saul asked what funds are in the Fixed Income Fund. Ms. Ray answered that it was composed of government, and mortgage backed securities (both Ginnie Mae and commercial mortgage backed securities).

In January, \$1.4 billion was traded in the F fund and its trading costs were a record \$779 thousand (as compared to approximately \$1 million for all of 2007 -- this shows the illiquidity of the fixed income markets). A record \$2 billion

was traded in the C Fund; \$1.4 billion was traded in the S Fund; and \$2.8 billion was traded in the I Fund.

January was a bad month for fund returns. The I Fund fell 8.52 percent, the S Fund fell 6.27 percent, and the C Fund fell almost 6 percent. The returns for the G and F Funds were both positive. For February so far, the I Fund is down 2.73 percent (although the EAFE is only down .91 percent), the S Fund is down a little less than 1 percent, the C Fund is down 1.94 percent, and the F Fund is down .84 percent.

In January, the 2040 Fund fell 5.73 percent, but this decrease is still less than the fall of its underlying equity funds because the L Funds have a diversified portfolio. Chairman Saul remarked that this point is important for the participants to understand. Participants who are not sophisticated investors should look at choosing the L Funds as their TSP investment vehicle. Ms. Ray noted that, since inception, the 2020, 2030, and 2040 L Funds have, on an annualized basis, outperformed all but the I Fund and that the Income and 2010 L Funds have substantially outperformed the G and F Funds.

January saw the largest liquidations ever in the S and I Funds, with participants moving to the G and F Funds. Chairman Saul noted that the liquidations occurred when the markets fell and that such investor activity was a self-fulfilling prophecy. Mr. Sanchez stated that it is a shame that TSP participants often sell low and buy high. Mr. Long added that there is a silver lining. Although 260,000 participants liquidated in January, 3.6 million did not. So, the majority of TSP participants seem to recognize that the TSP is a long-term investment vehicle. Mr. Sanchez stated that older participants have a different investment perspective, which is why the L Funds should be so appealing to them. Chairman Saul said that he understands we cannot give investment advice, but also said that we might want to increase our education efforts on the L Funds. Ms. Moran agreed and noted that we have planned targeted-mailings for younger TSP participants who are invested solely in the G Fund. The annual statement also encourages those participants who are invested solely in the G Fund to consider whether their asset allocation is appropriate.

c. Legislative Report.

Mr. Trabucco reported that Congress was back in session, but, that, like previous years, it normally undertook other business before taking-up new legislation. He noted that

he, Ms. Moran, and Mr. Emswiler continue to work with Congressional staff on the language of the automatic enrollment/L Fund default bills and that he hoped to have that work finished next week. He hopes to see some movement on those proposals in the spring, but the biggest obstacle remains cost (because the automatic enrollment provision would lead to increased tax-deferred contributions to the TSP resulting in decreased revenue to the Treasury). A Roth TSP feature could offset this loss of revenue and the Agency will study adding such a feature as a potential solution.

3. Office Space Usage.

Mr. Long reviewed his February 11, 2008 memorandum entitled "Sublease of Second Floor at 1250 H St." Attached. He noted that the number of Agency employees had fallen from approximately 100 to 85 and that this decrease had led the Government Accountability Office to find that the Agency had a higher office space per-person ratio than that recommended by the General Services Administration.

He reported that the Agency had (with a professional real estate advisor) studied consolidating its offices by moving its employees on the second floor to the third and fourth floors. The Agency determined that the cost savings of such a move would be minimal while the downsides of such a move would be significant. If we made the move, we would give up our second floor training room (and have to lease such space elsewhere) and would also have to do some remodeling on the other floors. We will begin looking at long-term options next year (as the expiration of our leases approaches), but, at present, we have decided not to consolidate. Mr. Petrick added that the Agency had concluded it could not earn significant rent by subletting the second floor. Mr. Sanchez noted that consolidation would not be cost effective. Mr. Long agreed and added that consolidation would leave no room for employee growth and would not be good for morale. Mr. Fink remarked that he was convinced it was appropriate to retain the second floor office space.

4. Department of Labor Audit Report.

Mr. Petrick reported that the Department of Labor (DOL) had completed its audit of the Agency's policies and procedures and was pleased to report that the DOL had concluded that the Agency was in compliance with the requirements of the Federal Employees' Retirement System Act of 1986.

The DOL did make one recommendation and that recommendation pertained to portable electronic devices such as laptops and Blackberries. Managing information through such devices is a new frontier and maintaining security is an evolving area. Consequently, we agreed with DOL's recommendation on enhancing portable device security and Mr. Hagerty is well on his way toward implementing the recommendation.

Mr. Fink stated that the report discusses employees working from home but seems to recommend keeping portable devices locked up at the Agency. He then asked for an update regarding Agency employees working offsite. Mr. Long reported that we are looking into greater use of our Fair Oaks facility because it disperses institutional and technological capacity. Mr. Hagerty added that this is part of our business continuity plan. We already have back-up call and data centers. We are moving toward dispersing technology so that our employees can work safely and securely when away from the Agency. Chairman Saul commented that Fair Oaks had been envisioned as a disaster recovery site and he asked for assurance that it had been configured as such. Mr. Hagerty confirmed that the Fair Oaks facility was a fully-functional disaster-recovery site.

Mr. Fink noted that the recent, major security breaches involving other agencies had involved laptop computers. Mr. Hagerty confirmed that they had, but noted that Agency laptops were encrypted and that we also have the ability to destroy the laptops memory the minute we learn it has been lost or misplaced. Mr. Fink asked, in view of this, whether Mr. Hagerty was concerned about the increased use of laptops by Agency employees. Mr. Hagerty stated that he is always concerned, but is managing the risk carefully. We also limit the distribution of laptops to employees who need them for continuity of operations. Mr. Sanchez asked whether employees who had laptops could access the TSP's main computer, so, for example, if the employee had a good idea while at home, he or she could enter that idea in the main computer. Mr. Hagerty confirmed that employees had such access and that the Agency regularly did testing to ensure that only Agency employees, using Agency provided devices, could access the system. Mr. Sanchez asked whether the TSP's computer system was wireless and was told that only the Blackberries were wireless.

Chairman Saul asked whether we had ever had to destroy a portable device's memory. He was told that we have not, but that we have tested to ensure we have such capability. We also have the capability to restore memory that had been "destroyed."

As a consequence, we encourage employees to report any possible loss or breach. Mr. Sanchez noted that TSP security had improved notably since Mr. Hagerty had been hired and Chairman Saul added that system security has long been a priority of the Board members.

Mr. Fink asked whether we expected, as more breaches at other agencies are reported in the press, to see pressure to not issue laptops. Mr. Long stated that he did not think so, because Congress was encouraging agencies to increase telecommuting and the use of remote work sites by all Federal employees.

5. Department of Labor Report.

Chairman Saul welcomed the representatives from the Department of Labor (DOL) and stated that he appreciates what they do to ensure that the Agency takes care of the TSP's participants. Mr. Dingwall commented on DOL's audit program for the TSP. See "U.S. Department of Labor Employee Benefits Security Administration, Fiscal Year 2008 Thrift Saving Plan Fiduciary Oversight Program, dated February 19, 2008 (EBSA Program). Attached. He noted that the theme of the last two years' audits has been security: ensuring that those who need access have access and that those who don't need access do not have it. He stated that security will always be an on-going effort and that DOL will watch to see if the Agency establishes best practices, or, if we don't do so, ask why we haven't.

He reported that DOL had found no instances of material noncompliance with FERSA. He noted that the Agency had controls in place and that DOL had conducted a follow-on audit with Metropolitan Life (the Agency's annuity vendor). All prior recommendations regarding Metropolitan Life have been implemented and are closed. Other recommendations to the Agency were either closed or in remediation.

Mr. Bailey reported that the Agency has controls in place for information security. The Agency is moving forward with the DOL's recommendations on system security and recoverability and he expects those recommendations to be fully implemented this year. DOL is concerned about the security of laptop computers and other portable devices because of the losses reported at other agencies. He noted that the encryption of Agency laptops is in process and that DOL wants the Agency to strengthen its password controls over laptops. Future DOL audits will include the Agency's daily valuation process, reviews

to ensure that Government Accountability Office's (GAO) TSP Program and the CIA's TSP program comply with FERSA. DOL also plans to review the TSP programs of several uniformed service components. Mr. Sanchez asked what was meant by a review of GAO's TSP program for FERSA compliance? Mr. Dingwall explained that the review will ensure that the GAO is following requirements regarding educating its employees, enrolling them in the TSP, and transmitting contributions to the TSP.

Ms. Flanagan briefly reviewed the scope of TSP audits (pages 7-10, EBSA Program), the tentative schedule for the 2008 audits (page 11, EBSA Program), and the overall objectives of the audits (pages 23-31 EBSA Program). She commented on the open recommendations (pages 12-14, EBSA Program) and noted that two had been closed since February and 11 were closed during the 2007 audit. Mr. Long added that, as reported last month, the Agency keeps track of all open audit recommendations and its progress toward implementation. Mr. Sanchez noted that the Agency is doing a much better job of closing audit recommendations. Mr. Long replied that we will likely never be able to have all recommendations closed; we do pay close attention to them, but not to the extent we manage the Agency's business to them.

Mr. Sanchez noted that KPMG had long conducted the audits for DOL and asked whether we should periodically change auditors to obtain fresh eyes and new perspective. Mr. Dingwall said that the contract is obtained through a competitive bidding process in which both technical merit and cost were considered. He added that, while KPMG has won these solicitations, its personnel do turn over. Ms. Dudley added that they are required to have a mandatory partner rotation and that this process lends a fresh perspective to the annual audits.

6. TSP Systems Modernization Update.

Mr. Hagerty reviewed the PowerPoint presentation entitled "TSP Systems Modernization Update," dated February 11, 2008. Attached. He noted that the Board had approved approximately \$15.2 million to modernize the Agency's IT infrastructure at the September Board member meeting. Chairman Saul stated that this Board has been very concerned that the Agency's IT systems keep up with the growth of the plan. Assets have doubled since 2002 and the number of participants has increased by 800,000. As a consequence, it directed the Executive Director and Mr. Hagerty to ensure the TSP's systems and security were state of the art. Mr. Hagerty agreed and stated that his objec-

tive is to be able to deliver critical services no matter what. He then noted, that since the September meeting the Agency has continued to improve its continuity of operations plan and has acquired and installed new mainframe computers.

Mr. Whiting said that, when the Agency last obtained new mainframes, it had been told that they were upgradeable. Mr. Hagerty replied that they were upgradable for three years, but that IBM had failed to advise us when that period expired. Mr. Whiting asked, if IBM had notified us, could we have made necessary upgrades. Mr. Hagerty said that we could have made some, but could not have enhanced security to the degree necessary. Chairman Saul said that we purchased the computers five years ago and that they have been depreciated to zero. Four years from now we may need to again decide whether to upgrade or purchase new mainframes. Mr. Hagerty stated that the new mainframes had additional capacity that could be turned on but that he was deferring such action to stay within budget. Chairman Saul stated that the budget could be revised if necessary and asked for Mr. Hagerty's assurance that the computers met our needs as currently configured. Mr. Hagerty assured him that they did and stated that Mr. Long had also told him that the budget could be revised as necessary. Mr. Long said that the mid-year budget review will include a status report on IT system modernization and current needs.

Mr. Hagerty returned to his presentation and discussed additional activities that have been undertaken to date. Mr. Sanchez asked Mr. Hagerty to review the steps the Agency takes to ensure it could operate in the event of a disaster. Mr. Hagerty explained that they regularly do continuity of operations testing to ensure that the back-up data center could take over operations in the event of an emergency. They plan to expand this testing in the near future. They are also continually enhancing security because technology improves on an almost daily basis. He added that they need to ensure that IT resources are not overly consumed with audits. Mr. Long stated that audits benefit the Agency and TSP participants. Nevertheless, audits can slow down IT initiatives. While we will always fully cooperate with the auditors, IT initiatives will be given the priority.

Mr. Hagerty said that, as part of the Agency's security initiatives, it had fielded account numbers in October 2007. Procurements are under way for fraud detection and mitigation software, for brand monitoring and anti-phishing services, and for social engineering testing. Mr. Long noted that the F.B.I.

and Secret Service assist the Agency whenever it suspects such activity is taking place.

Mr. Hagerty then reviewed progress toward modernizing the server environment and telecommunications. This includes ensuring redundancy in the event we lose service from one of our telecommunication providers. Chairman Saul asked whether we can also ensure redundancy for the power grid. We have generators in the event we lose power. Updating infrastructure is an on-going project.

Mr. Hagerty summarized by saying the IT modernization project is on-track. He had no significant issues to report. Chairman Saul (joined by Mr. Sanchez) complimented Mr. Hagerty on his report and stated he had confidence we are on-track. He asked for another update whenever Mr. Hagerty deemed it appropriate. Chairman Saul then asked about the plan to submit proposals for recordkeeping services and asked how that would affect IT services. Mr. Hagerty reported that we plan to request proposals by the end of the year. Chairman Saul cautioned to not let this interfere with IT modernization.

Mr. Fink asked for an update on the Agency's efforts to reduce frequent trading. Mr. Long reported that we have provided the proposed regulations to the Employee Thrift Advisory Council for their input. One organization had suggested it might come up with a better solution if it had more time. The Department of Defense requested more time. Consequently, we allowed each organization more time to submit comments. Of the 3,750 participants we contacted after publishing the interim regulation, we have received calls from 50 to 60. Some called to apologize for their activity, while others called to complain about the interim regulation. We plan to publish the proposed regulation in early March and to allow thirty days for comment. We will then evaluate those comments and decide on next steps.


7. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 11:15 for a discussion of confidential financial information and personnel matters.

At 11:52, upon completion of the closed session, the members reconvened the open portion of meeting. The members briefly discussed the date of the June Board member meeting, but agreed to defer the decision until April.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:55 a.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler
Secretary

Attachments

1. Letter to TSP Participants
2. Thrift Savings Fund Statistics
3. January 2008 Performance Review - G, F, C, S, I, and L Funds
4. Sublease of Second Floor at 1250 H St.
5. EBSA Review of the Policies and Procedures of the Federal Retirement Thrift Investment Board Administrative Staff
6. TSP Systems Modernization Update