



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 24, 2009

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board convened a meeting of the Board members on September 24, 2009, at 9:55 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, Thomas A. Fink of Alaska, member; by telephone, 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; Thomas J. Trabucco, Director, External Affairs; and Renée Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the August 17, 2009 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the August 17, 2009 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 August 17, 2009, be approved.

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

- a. Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). For the month of August, assets under management for the TSP reached almost \$230 billion. The number of participants is just under 4.2 million, and 2.2 million of those participants are FERS participants. The FERS' participation rate, which was 82.2 percent for August, has been impacted by the addition of immediate contributions but this rate should normalize going forward. Finally, loan activity has gone up slightly in the last couple of months. Ms. Moran noted that this activity may be due to the need of participants to make tuition payments.

- b. Quarterly Investment Performance Report

Ms. Ray reviewed the September 16, 2009 memorandum (attached), entitled "August 2009 Performance Review." BGI's small-mid cap fund had a tracking error of positive 11 basis points. This is related to the optimization

program used in the fund. Year-to-date, the small-mid cap fund has a tracking error of negative 200 basis points.

In August, the International (I) Fund had a tracking error of negative 57 basis points which is due to a fair value adjustment in July. Year-to-date, the I Fund has a tracking error of negative 154 basis points.

The G Fund rate remains at 3.25 percent.

August was another good month for the funds. Performance ranged from 0.28 percent for the G Fund to 4.87 percent for the I Fund. Year-to-date, the Plan has seen some spectacular returns. Since March 9, which was the low point for the market, through August 31, the I Fund is up 70 percent, the S Fund is up 64 percent, and the C Fund is up 53 percent. All of the funds, except the I Fund, have been up for the past six months in a row. Due to the influence of the global currency market, the I Fund has been up five out of the six months.

Compared to the underlying funds, the L Funds did well which is to be expected when the stock markets perform well. Since inception, the L Income and L 2010 Funds have done the best because they were more insulated against the past market turbulence. All L Funds are positive. A record 615,800 participants have invested some or all of their TSP balances in the L Funds.

c. Legislative Report

Mr. Trabucco reported that the October 30 adjournment target for the House of Representatives has been pushed back and it is likely that House will not adjourn until sometime between Thanksgiving and Christmas.

3. Annual Budget Report

a. Fiscal Year 2009 Results

Mr. Long then discussed the September 16, 2009 memorandum (attached) entitled "Fiscal Year 2009 Projected Expenditures, Fiscal Year 2010 Budget, and Fiscal Year 2011 Budget Estimate." In 2009, the Agency had a budget of \$114 million, and the Agency's obligations for the year will likely total \$109.7 million which is \$4.7 million under budget. As circumstances warranted, the Agency adjusted its spending and there are variants in the final 2009 budget from what was initially requested from the Board.

While the Agency is under its total 2009 budget, recordkeeping activities, totaling \$90.8 million, are expected to be \$5 million over the budgeted amount of \$85.8 million. This increase is due to an increase in contractor support and maintenance of the Agency's systems.

The Agency made some opportunistic purchases and advanced what would have been 2010 expenses so that they were purchased with 2009 dollars. Examples of such purchases include additional storage, server capacity, and the hardware and software necessary to replace the call centers' interactive voice recording and response systems.

For 2009, participant communications was \$1.3 million under budget. This is because a number of significant expenditures were deferred. In particular, the Agency budgeted for a one-time mass mailing which was not required in 2009. Because of the Agency's need to stay flexible, Ms. Moran's team, which had to react to unanticipated changes like those required by the Thrift Savings Plan Enhancement Act of 2009 and the 2009 suspension of required minimum distributions, deferred several projects that would have occurred in 2009 to 2010.

The Agency is running a bit under budget as far as staffing. The Agency made eleven new hires but several people also resigned and retired. Currently the Agency has 91 employees. Between 1999 and 2004 the Agency had between 110 and 120 employees, and in 2007 the Agency had its lowest staffing level with 83 employees. The Agency now manages a much larger Plan with approximately 4.2 million participants and Mr. Long noted that he anticipates the Agency's staff growing to 110 over the next several years.

b. Fiscal Year 2010 Budget

The proposed budget for 2010 is \$130.3 million and represents a \$15.8 million increase over the FY 2009 budget. Mr. Long noted that he is an Executive Director who leans forward and will not run the Plan standing still. The Agency now manages \$230 billion for 4.2 million participants and the 2010 proposed budget comports with the needs of a first-class organization. The Agency has a very ambitious agenda to improve the TSP for 2010. For example, the Thrift Savings Plan Enhancement Act provides for substantial benefits including immediate agency contributions and a Roth feature. These features are very important, and the Agency must spend money in order to implement them. Further, the Agency has several internal projects, like updating the TSP website and implementing e-messaging, which demand Agency resources.

Specifically, for FY 2010, Mr. Long proposes to spend approximately \$99.1 million on record keeping activities. This figure is \$13.3 million above the cost of record keeping activities in FY 2009. The bulk of the increase is attributable to system support costs which are \$37.2 million which is an increase of \$7.8 million. System support includes the software needed to run the TSP and the people that design, test and run the software and its applications.

The Agency continues to improve its record keeping system which was aging. The system has developed from one that was monthly-valued to one that is daily-valued. The system is more complex with multiple programming

languages and 43 subsystems all of which must be tested and configured. The Agency also needs more staff in this area to support audit-driven recommendations in the areas of quality assurance, configuration management, and security. In total, this budget item is about \$5 million higher than last year and will require approximately 30 additional contractors.

Mr. Long added that the Agency spends a significant amount of time discussing which functions are inherently governmental. Mr. Hagerty and Mr. Long often discuss the need for the Agency to have the knowledge and decision-making capability to direct the efforts of the contractors so that the Agency is not dependent on outside help.

The increase in the record keeping budget also represents individual projects like procuring OmniPay which is a \$2.8 million project. Ms. Smith noted that OmniPay, which is integrated with the other Omni products, will allow the Agency to do automatic tax reporting which is currently done manually. This product will probably save the Agency four months of manual work each year and is also necessary in order for the Agency to implement the Roth feature.

Mr. Fink then asked how much of the budget is attributable to the new legislation and projects like Roth. Mr. Long noted that it is difficult to estimate such costs. Ms. Moran noted that it would be difficult to determine the costs associated with the Roth feature as she and Ms. Wilder are working on a request for information to determine the best communication and education methods for implementing Roth, and, therefore, the exact scope and cost of the Roth project is still unclear. The Agency is also still trying to determine the IT requirements associated with the Roth. Mr. Fink added that he believes that adding the Roth feature may be one of the most expensive projects for the Agency and that he would like to see a price tag so that when Congress wants to add features in future years, the Agency can provide them with cost figures.

Mr. Long noted that a substantial part of the FY 2010 budget's increase is due to the Thrift Savings Plan Enhancement Act, but it is difficult to break down the costs and tie them to a specific initiative. Mr. Hagerty noted that the Agency does not currently have an accounting system that allows contractors to charge their time to a specific project, however, future contracts will have this capability.

Mr. Long commented that if he just wanted to move forward steady state, then he would only ask for a three to four percent increase in the budget. The TSP Enhancement Act is the bulk of the work and related expenses behind the budget increase. The Agency is changing the way it does business.

Mr. Sanchez noted that private and public budgets are not rising and that he is concerned about increasing the Agency's budget by twenty percent when no entity is increasing its budget even three percent. Mr. Fink noted that much

of the increase is related to audit recommendations and additional security. Mr. Sanchez will support this increase if the costs are absolutely needed, but he noted that the Agency should not get comfortable with such increases.

Mr. Long reviewed past budget numbers. The Agency started decreasing its budget in approximately 2003 and reached a low point in 2007 during which time the budget was \$87 million. In 2008, the Agency started to increase its budget in large part due to system enhancements.

Mr. Long noted that he understood Mr. Sanchez's reservations. The Agency does not spend participants' money unless it is in their best interest. Mr. Long believes the expenditures he has put forward are in the participants' best interest. Mr. Sanchez noted that at some point it is important to make the decision that the organization can do without certain things.

Chairman Saul noted the increases are substantial but not necessarily unjustified. He commented that the TSP is a better operation than it was before. Further, the Plan has significantly more participants and assets under management. Without adjusting for inflation, over the past seven years, the Agency's budget has risen approximately \$23 million. While the Agency has increased its budget substantially over the past two years, the budget does have restraints built in. Mr. Long explained how he decided not to expend \$20 million to upgrade the Agency's backup capabilities because the system in place is sufficient, and the Agency risks losing only 59 minutes of data. Mr. Long often turns down proposals from his senior staff members.

Mr. Whiting commented that he believes the budget makes a lot of sense. Chairman Saul noted that the budget increase is really asking for an increase of \$25 million over a ten-year period. Mr. Sanchez noted that the budget makes sense to him and that he believes in Mr. Long. However, anything can be justified, and the Agency cannot continue to increase its budget at this rate. Mr. Whiting noted that the budget was artificially low and had been depressed for many years so that the comparisons to past years were not accurate.

Barring an emergency, Chairman Saul recommended that the FY 2011 budget increase remain only as a five percent increase. Chairman Saul noted that Mr. Sanchez was not the only one with concerns as far as the budget increase and that the Agency's senior staff should understand the position of the Board which is to spend conservatively.

Mr. Long then continued to discuss the other items requested in the FY 2010 budget. The budget includes costs associated with ensuring the data centers are staffed 24/7 and improving the call centers' interactive voice response software.

Record keeping operations are budgeted for \$30.1 million which is an increase of \$2.6 million from FY 2009. This budget accounts for increased

contractor labor costs and staffing needs associated with the benefits processing and accounting groups. As an example, the Agency's staffing needs have increased because it must process Treasury credits which are returned to the TSP because they are undeliverable. Further, as a part of its fraud mitigation and internal controls process, the Agency has started validating forms relating to money out transactions.

Agency staffing needs account for \$14.3 million of the FY 2010 budget. Including Board members, the Agency's total staff will be 110 employees. OPM made it clear in an audit finding that the Agency must have a strategic personnel plan in place in order to ensure that, in the event of an emergency or a large number of retirements, the Agency can transition its leadership team. Increased staffing will enable the Agency to hire and develop its future workforce. There are particular groups, like accounting, that are very short staffed and need support immediately.

Mr. Sanchez exited the meeting to attend to an urgent business matter. He noted that he would support this year's budget increase but that he would like to get future increases back to roughly three or four percent.

Mr. Fink stated that he agreed that the budget increase was large and asked if the cost per employee (approximately \$140,000) is normal as far as salary and benefits. Mr. Petrick noted that the cost of benefits goes up every year and such costs are integrated into the budget.

Mr. Fink noted that he feels that it is important that the Agency calculate the costs associated with the programs mandated by Congress. Mr. Trabucco added that the recent legislative changes show Congress' confidence in the work and competence of the Board in that the changes came without mandatory effective dates. This allows the Agency to avoid the need to pursue discrete, stand-alone projects and efficiently implement the new statutory benefits by folding them into ongoing projects. However, this can make it difficult to be as precise as Mr. Fink would like in terms of associating Agency spending to a particular project.

Mr. Long noted that the Plan is still the lowest cost plan of its type. CALPERS, for example, operates with a \$330 million budget and 2,000 employees. Mr. Long has no intention of becoming CALPERS and emphasized that the TSP is very inexpensive.

c. Fiscal Year 2011 Estimate

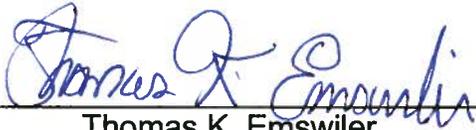
The Agency's 2011 budget is estimated to be approximately \$135.9 million. Mr. Fink commented that he hopes that Mr. Long keeps the FY 2011 budget close to this number.

Chairman Saul entertained a motion for approval of the fiscal year 2010 budget and the fiscal year 2011 budget estimate. The following motion was made, seconded, and adopted without objection:

MOTION: That the Agency's proposed fiscal year 2010 budget and fiscal year 2011 budget estimate, as set out in the September 16, 2009 memorandum, be approved.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 11:20 a.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. August 2009 Performance Review – G, F, C, S, I, and L Funds
3. Fiscal Year 2009 Projected Expenditures, Fiscal Year 2010 Budget, and Fiscal Year 2011 Budget Estimate