



MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 25, 2011

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 25, 2011, at 9:03 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 Michael D. Kennedy of Georgia; Dana K. Bilyeu of Nevada; 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.

1. Approval of the minutes of the December 13, 2010 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the December 13, 2010 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 December 13, 2010, be approved.

2. Thrift Savings Plan activity report by the Executive Director.
 - a. Participant Communications Materials

The Board members received a copy of the annual participant statement, a letter from the Executive Director, and a copy of Highlights. Mr. Long pointed out that the annual statement contains a new item that tells each participant what his or her lifetime monthly payment would be if he or she was 62 years old and receiving a single life annuity calculated based on his or her current TSP account balance. The copy of Highlights contains an article that advocates thinking about TSP payments in terms of a stream of monthly payments instead of a lump sum. The new item on the annual statement and the article in Highlights are the beginning of a long term educational effort to encourage participants to think of their retirement savings as the source of their future paycheck.

The Board members also received a summary plan description designed specifically for beneficiary participants. Ms. Moran informed the Board members that the Agency currently has 2,625 open beneficiary participant accounts. She also reminded the Board that one of the benefits of these accounts is that spouse beneficiaries are relieved of the need to make a financial decision during a time of grief. Any spouse beneficiary's death benefit will be automatically transferred

to an account in the spouse beneficiary's name and will be invested safely in the G Fund until the spouse is ready to make a withdrawal or transfer decision.

Mr. Saul asked if a spouse beneficiary must withdrawal his or her beneficiary participant account balance within a specified period of time. Ms. Moran explained that a spouse beneficiary can leave money in his or her beneficiary participant account indefinitely. Moreover, a spouse beneficiary has all the interfund transfer options and withdrawal options that he or she would have if he or she was a separated TSP participant.

b. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder informed the Board members that the total fund balance is approaching \$281 billion.

The total number of TSP participants is over 4.4 million. Out of the total number of participants, 70,779 were automatically enrolled. The total FERS participation rate is 83%. The total active duty uniformed services participation rate has grown to 38.4%. The Navy continues to have the highest active duty participation rate.

Automatic enrollment is proving successful. Approximately 97.6% of newly hired civilian Federal employees are participating in the TSP. Mr. Saul asked whether the success of automatic enrollment might persuade the uniformed services branches to support automatic enrollment for uniformed services members. Mr. Long and Mr. Trabucco explained that the Roth feature is most valuable to uniformed services members and, therefore, automatic enrollment may be more appealing to the uniformed services after Roth has been implemented.

Ms. Wilder reported a slight increase in withdrawals in 2010. The amount of in-service withdrawals based on age or hardship was approximately \$2 billion. Ms. Bilyeu inquired about the number of hardship withdrawals. Ms. Wilder said that just over 123,000 participants requested hardship withdrawals in 2010.

c. Quarterly Investment Performance Report

Ms. Ray reported that Blake Grossman, former Chief Executive Officer of Barclays Global Investors is leaving BlackRock. Rich Kushel, Head of Portfolio Management, will assume many of Blake Grossman's duties. Rich Kushel will attend the May Board meeting.

Ms. Ray reviewed the January 12, 2011 memorandum, entitled "December 2010 Performance Review" (attached). She reported some tracking error in the F Fund and the S Fund due to optimization processes. There was also tracking error in the I Fund due to the tax effect.

Trading costs were very low in December. The G Fund rate increased to 2.88% for the month of January. The increase was driven by an increase in the yield of the 10 year T-note to 3.3% and an increase in yield of the 30 year T-bond to 4.34%.

The total returns of the TSP funds were all positive for the month and year-to-date, except for the I Fund. The I Fund was down half a percent. The S Fund is the best performing fund in 2010 with a 29% year-to-date return. However, the C Fund and I Fund so far have out-performed the S Fund for the month of January.

Ms. Ray pointed out that the number of participants with L Fund balances in the L 2010 Fund is zero because the L 2010 Fund is now retired. The majority of participants who had L 2010 Fund balances are now investing in the L Income Fund.

The members then revisited the Board's investment policy and 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.

Ms. Bilyeu asked Ms. Ray how the Agency develops its proxy voting policy. Ms. Ray explained that the Agency is prohibited by law from voting proxies.

d. Legislative Report

Mr. Trabucco reported that the legislative session kicks off today. He also reported on some staff changes on the Agency's oversight committees. Jill Crissman, who worked for Congressman Lynch, has been retained by the House Committee on Oversight and Government Reform. Jennifer Hemingway, who worked for Senator Voinovich, has been hired by Congressman Issa to be a senior professional staff member on the House Committee on Oversight and Government Reform.

Mr. Saul asked Mr. Trabucco if he knows who will chair the Subcommittee on Federal Workforce, U.S. Postal Service, and Labor Policy. Mr. Trabucco said that information was not yet available because the full committee was having its organization meeting as he spoke. He added that Congressman Cummings is the ranking member of the full committee.

Mr. Trabucco reminded the Board that the terms of the current members of the Employee Thrift Advisory Council will expire at the end of March. Mr. Saul is in the process of requesting nominees from the presidents of the various organizations represented on the Employee Thrift Advisory Council. A new Council will be seated on April 1st. The Board and the new Employee Thrift Advisory Council will conduct a joint meeting on April 18th.

Ms. Bilyeu asked whether Mr. Trabucco expects a high rate of turnover on the Council. Mr. Trabucco explained that there are typically quite a few re-nominations and re-appointments.

Mr. Saul pointed out that the Employee Thrift Advisory Council is composed of 14 unions and the Department of Defense. The members of the Council represent approximately two-thirds of TSP participants. As such, he feels strongly that the Board should continue to ensure that Council members have an opportunity to weigh in on any major policies adopted by the Agency.

Mr. Trabucco addressed the possibility that the Federal government will reach the statutory debt limit in March. When the Federal government reaches the statutory debt limit, it is prohibited from issuing more securities to the G Fund. He explained that the Federal government has reached the statutory debt limit 29 times since the Agency was created in 1986. He further explained that participants who are invested in the G Fund are fully protected by debt limit protection legislation passed in 1987 which requires the Treasury to make the G Fund whole following a debt limit suspension on the issuance of Treasury securities.

Ms. Bilyeu asked if there have been any proposals in Congress to change the agency matching contribution formula. Mr. Trabucco explained that there are perennial proposals of that nature, but they have not received any increased attention.

e. Quarterly Vendor Financial Report

Mr. Petrick provided the Board members three charts entitled “Gross and Net Expenses”, “Annual Contributions G, F, C, S, and I Funds”, and “Annual Year-End Balances G, F, C, S, I, and L Funds” (attached). He reported that the gross expense basis points and the net expense basis points decreased slightly from last year. The gross expenses are 4.83 basis points and the net expenses are 2.46 basis points. The total gross expense incurred by the Agency in 2010 was \$119 million.

Chairman Saul observed that a participant who has a \$100,000 balance pays less than \$25 a year in administrative expenses. Ms. Bilyeu asked whether trading costs are included in gross and net expenses. Mr. Petrick explained that trading costs are reflected in fund performance and therefore are excluded from the gross and net expenses. Mr. Saul inquired about the TSP’s capital balance in 2004. Mr. Petrick said the capital balance was \$152 billion in 2004. Mr. Saul observed that the capital balance has nearly doubled since 2004.

Mr. Petrick provided the Board with the January 14, 2011 memorandum, entitled “Quarterly Financial Assessment of TSP’s Primary Vendors – January 2011(attached). He informed the Board that there was nothing exceptional to report with regard to any of the Agency’s vendors in this quarter.

3. Minimum Required Distribution Incident Report.

Mr. Long provided the Board with a January 18, 2011 memorandum entitled “Minimum Required Distribution Incident Report.” He informed the Board that a coding error caused 9,721 participants to receive required minimum distribution (RMD) checks when they should not have. He then discussed the root causes of the incident and the Agency’s response to the incident.

Mr. Long explained that the calculation of RMD distributions is an automated process. The automated system calculates the date on which each participant is eligible to receive an RMD and the amount of the RMD the participant must receive. The RMD eligibility date for participants is different than the RMD eligibility date for beneficiary participants. Therefore, the Agency had to create special code to implement spouse beneficiary accounts.

The special code did not isolate beneficiary accounts. Instead, the code for beneficiary participant eligibility dates looked at the broader participant

population. Failure to isolate the code for calculating RMD eligibility dates for beneficiary participants resulted in erroneous eligibility dates for some individuals who are not beneficiary participants.

Each distribution was processed on December 28th. The Agency learned of the error on December 29th. The Agency could not stop the Treasury from issuing the erroneous checks without also halting the issuance of all non-erroneous checks. Halting the distribution of non-erroneous checks would have created potentially adverse tax consequences for 25,000 participants.

The Agency immediately informed call center representatives about the erroneous distributions. The Agency then sent letters to the 9,721 participants who received checks explaining that the Agency distributed the check in error and informing them that the Agency will place the money back in their accounts if they return the check. Approximately, 6,200 of the erroneously distributed checks have been returned to date. Those 6,200 participants have been made whole.

The Agency tested the code changes to the beneficiary participant RMD eligibility dates and determined that it had the intended effect on beneficiary participants. Unfortunately, the Agency does not currently have the capability to perform an automated test in a full production sized integrated test database which would have tested the changes on all participant accounts.

Mr. Long asked the Board to revisit the Agency's budget in view of the fact that the RMD code error would more likely have been detected with a full-sized test database. The Board unequivocally agreed that a full-sized test database would decrease the risk of error associated with code modifications. Mr. Saul made the following motion, which was seconded and unanimously approved:

That the Board amend the fiscal year 2011 budget to add \$1.5 million for automated testing tools.

Mr. Long also discussed his intent to expedite efforts to collect, maintain, and use participant e-mail addresses and targeted web messages. He explained that e-mail communication could have decreased the delay between the time the Agency learned about the RMD code error and when the affected participants received notice of the error.

4. Educational Materials Demonstration.

Ms. Moran showed the Board members the newly developed educational DVD entitled "Investing in the TSP."

5. Closed Session.

On a vote taken by the Chairman, the members closed the meeting at 11:20 a.m. for executive session.

At 12:33 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 Saul adjourned the meeting at 12:33 p.m.



Thomas K. Emswiler
Secretary

Attachments

- 1 Thrift Savings Fund Statistics
2. December 2010 Performance Review – G, F, C, S, I, and L Fund
3. Gross and Net Expenses Chart
4. Annual Contributions G, F, C, S, and I Funds Chart
5. Annual Year-End Balances G, F, C, S, I, and L Funds Chart
6. Quarterly Financial Assessment of TSP's Primary Vendors – January 2011
7. Minimum Required Distribution Incident Report