



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD  
77 K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 27, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 27, 2012, at 9:00 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 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; Thomas K. Emswiler, Secretary and General Counsel; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Thomas J. Trabucco, Outgoing Director, External Affairs; Kimberly A. Weaver, Director, External Affairs; Mark E. Walther, Chief Information Officer; Renee C. Wilder, Director, Research and Strategic Planning; Susan I. Peine, Deputy Director, Office of Benefit Operations; Sophie T. Dmuchowski, Deputy Director, Communications; Anne Beemer, Controller.

1. Recognition of Service and Thanks to Pamela-Jeanne Moran and Thomas J. Trabucco.

Chairmen Kennedy called the meeting to order and announced that it was Ms. Moran's and Mr. Trabucco's last meeting because they are retiring after over twenty years with the Federal Retirement Thrift Investment Board. Mr. Long spoke of Ms. Moran and Mr. Trabucco's history with the Agency, and their many years of service. Ms. Moran and Mr. Trabucco were part of a small team who helped build the organization from scratch. Today, the TSP is a model for defined contribution plans around the world due to the work of Ms. Moran and Mr. Trabucco. They dedicated their professional careers to the creation of the TSP and to helping millions of participants retire with dignity. Chairman Kennedy acknowledged all their work, remarking that it has been a pleasure to work with them, and he greatly appreciates the knowledge they have imparted to the Board and the great contributions they have made to the plan. Mr. Long thanked them again, and introduced Ms. Kimberly A. Weaver, who is the new Director of External Affairs.

2. Approval of the minutes of the January 23, 2012 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the January 23, 2012 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 January 23, 2012 be approved.

3. 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 Plan has exceeded \$300 billion in assets. The FERS participation rate increased from 84.6% in December to 85.9% in January and February. At the end of 2011, Ms. Wilder had noted a decrease in participation rates which she speculated was due to participants reaching the elective deferral limit for the year. The increase in the participation rate for January and February supports that conjecture.

Ms. Wilder noted that the total uniformed services participation rate is fairly consistent what that rate has been in the past. However, there was a 3% decrease in the ready reserve participation rate. Mr. McCray asked about the apparent decrease in the uniformed service participation rate. Mr. Long explained that the 3% decrease is specific to the ready reserve, and is likely the result of the withdrawal of military forces from Iraq.

Chairman Kennedy mentioned his interest in the communication and education efforts direct toward the uniformed services, and Mr. Long took a moment to explain America Saves and Military Saves. February 19-26, 2012 was America Saves week, and many articles appear in different publications that are sent to military bases to raise retirement awareness and provide information. The Agency provides content and support to these endeavors, including writing articles explaining why uniformed services can and should participate in the TSP. Mr. Long also mentioned Mr. Emswiler's efforts with JAG school in Charlottesville, VA, where he is invited several times throughout the year to give a variety of presentations on the TSP and how it can fit into estate planning. Mr. Emswiler is able to educate and reach out to lawyers who are often involved in financial planning for the service members. Mr. Jones stressed the importance of educating uniformed services members, and young employees in general, so they have the opportunity to make contributions early and benefit from the plan to the fullest extent. Mr. Long agreed, and reviewed the Agency's continuing efforts to encourage the participation of the uniformed services, including meetings at the Pentagon with high ranking military officers. Mr. Long believes that the upcoming Roth features will provide a significant benefit to uniformed services members because of the tax implications for the young employees who have lower marginal tax rates now than they might have later in their careers.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "January 2012 Performance Review – G, F, C, S, I, and L Funds" (attached). Tracking error was minimal for the month of January. The F Fund trading costs for January were unusually high. This is a result of illiquidity in the credit markets.

The G Fund rate for February is 1.5 percent, the same as it was in January. The C Fund is up another 4.3 percent for the month of February. The S Fund, which had been up 7.6 percent, its third best return in two years, is up an additional 5 percent. The I Fund is up another 6 percent for the month. Year-to-date, the C Fund is up almost 9 percent, the S Fund is up 13 percent, and the I Fund is up over 11 percent. Ms. Ray also noted that 20 percent of FERS participants now have balances in the L Funds, up from 12 percent in 2006.

c. Legislative Report

Mr. Trabucco reported on developments on Capitol Hill. He highlighted three issues in particular. The first being an issue related to IRS levies. The IRS maintains that it has the authority to levy funds in TSP accounts. The Agency disagrees because of its enabling legislation provides that TSP accounts are not subject to levy. Congress recently added a provision to the Senate transportation bill which would clarify that TSP accounts are subject to levy.

Legislation authorizing TSP contributions from terminal annual leave was added to the House transportation bill. Private sector 401(k) plans may permit employees to make contributions from terminal annual leave. The TSP does not currently have statutory authorization to allow TSP contributions from terminal annual leave. As such, the TSP is seeking a legislative change that would authorize TSP contributions from terminal annual leave. Because this authorization is included in the House transportation bill and it was coupled with a Congressional action raising contributions from yet-to-be-hired federal employees, a clear resolution to this issue seems unlikely this year.

Congressman Nugent introduced a piece of legislation that would allow members of Congress to voluntarily decline TSP employer contributions. Mr. Trabucco mentioned that similar legislation has been proposed before, and he does not predict that this piece of legislation will be passed.

d. Current status of Audit Recommendations

Mr. Long introduced Ms. Beemer to speak about the current status of the Agency's audit recommendations. She reviewed the February 15, 2012 memorandum entitled "Update on audit recommendations 2004-2011" (attached). The Agency has received a total of 106 audit recommendations between years 2004 and 2011: sixty-eight from the Department of Labor and KPMG, thirty-three from the Agency's financial auditors and five from the GAO. Sixty-four of those recommendations have been closed by the auditors and forty-two remain open. The forty-two recommendations that remain open include recommendations that the Agency considers closed, because the necessary action has been taken, but which have not yet been reviewed and closed by the auditor.

The Agency has non-concurred with two of the audit recommends received between 2004 and 2011. Both non-concurs related to GAO audit recommendations. The first recommendation related to the timing of a participant satisfaction survey, and the second was a recommendation to undertake the expense of a benchmarking study against other plans, which the Agency felt was not an expense that would be in the best interest of the participants and beneficiaries. Chairman Kennedy asked about the timing of the audits, and Ms. Beemer explained that many of the open audits are recent. She further explained that action has been undertaken for many of the open audit recommendations, but they remain open until they are reviewed a second time. Mr. Long anticipates that a significant number of the open audits will closed within the calendar year.

Ms. Beemer briefed the Board members about two recent performance audit reports. The first, a DOL performance audit of the Government Securities Investment Fund (G Fund), resulted in no recommendations. The second, a performance audit of the Thrift Savings Plan withdrawals process, resulted in a number of recommendations: two recommendations that remained open from 2005 and five additional recommendations. Mr. Long introduced Ms. Susan Peine to explain these recommendations.

The first 2005 recommendation pertained to daily disbursement reconciliations. Ms. Peine explained that the Agency's disbursement application had a programming error that caused the daily disbursement report to inaccurately reflect the status change for payments. The Agency deployed a more robust disbursement application, OMNIPay, in July 2011. The implementation of OMNIPay eliminated this issue and, as result, the Agency considers this recommendation closed. The second recommendation concerned small balances from employing Agencies' residual contributions on behalf of separated employees' remaining in participant accounts. The Agency has a plan in place, to be implemented after Roth is launched, involving an update to participant addresses in order to notify these participants. Mr. McCray and Ms. Bilyeu asked about the process for finding missing participants, and what happens when an account is forfeited. Ms. Moran explained that the Agency has a set period of abandonment, after which accounts are closed. The participant, or the participant's beneficiary, is always able to contact the Agency to have the account restored, even after abandonment.

The first 2011 recommendation concerns one case where a beneficiary participant account was improperly established for a nonspouse beneficiary. The Agency concurs with this recommendation and has implemented a secondary review process to ensure that beneficiaries are properly identified as spouse or non-spouses at the time a beneficiary participant account is established. The Agency considers this recommendation closed.

The second 2011 recommendation concerns 10 participants (out of several thousand) who did not receive a January 2011 Required Minimum Distribution (RMD) notice. The January 2010 notifications that RMDs would be issued in March

2012 to ten participants were not generated because the participants' RMD eligibility dates in the record keeping system were not updated after the 2009 RMD payments were suppressed due to a temporary change in the Internal Revenue Code. The Agency notified these ten participants in March, performed a sweep to ensure that no other participants were affected, and created a Software Change Request (SCR) to ensure that future eligibility dates are updated correctly.

The third 2011 recommendation pertains to a data entry error processing court orders that award one third of a participant's account. The Agency entered the percentage award as 33% instead of 33.33% resulting in an underpayment to a participant of \$147. In response to this finding the Agency implemented a three-step process that includes entry calculation, processing calculation and verification, and payment calculation and verification. In addition, the Agency is in the process of implementing a new automatic payment calculation system to replace the three step manual process.

The fourth 2011 recommendation concerns distribution error. A system error resulted when RMD payments were paid to participants while they were still active employees (before separation). The error was communicated to affected employees, and they were given the opportunity to either keep the funds or return them. In all cases they were given the opportunity to make the accounts whole as if the error never happened. The Department of Labor was notified, and the Agency reviewed its RMD process. The Agency considers this recommendation closed as the 2011 RMD issuances processed without error.

The fifth 2011 recommendation concerns untimely payments of death benefits. The Agency's automated system was not properly configured to send payments on the next business day when the scheduled payment date fell on a weekend and/or a Federal holiday. The Agency has created a Systems Change Request (SCR) to resolve this issue. Until the SCR is implemented, the Agency will perform a manual review to ensure that payments are sent on the next business day.

#### 4. Department of Labor Audit Report.

Mr. Ian Dingwall from the Department of Labor introduced himself, and spoke of how much he enjoyed and appreciated working with Ms. Moran and Mr. Trabucco. Mr. Dingwall outlined the history of the Department of Labor's relationship with the TSP, in particular stressing his view of the importance of secure record keeping systems and adequate cyber controls. He stated that the TSP has been subject to cyber attacks and fraudulent loan attempts. He stressed that DOL is concerned about the Agency's computer access and security controls. Mr. Dingwall expressed concern that not all recommendations related to technology concerns had been addressed by the Board, and reduced a planned full scope audit to a limited scope audit as a result. Mr. Dingwall remarked that when he examined why the DOL was not able to receive full access and a full response to the audits, he found the staff to be very busy. He feels

that the Agency staff is constantly engaged in activity designed to modernize systems, but that there is still steps that need to be taken to achieve a state of the art system.

Mr. Bailey reviewed the four audits of the past year. DOL reviewed BlackRock, which is a heavily audited organization. DOL concluded that it was a satisfactory review and made no recommendations. DOL also examined the Treasury, in particular the proper calculation of the G fund formula rate, treatment of participants' account, accounting during the debt suspension period, and communication between the Treasury and the Board staff. DOL concluded that this was a satisfactory review and had no recommendations. In addition, DOL examined the annuity processing of Metropolitan Life and had no recommendations. During the reviews, nothing came to his attention that was a material noncompliance with FERSA.

Mr. Long acknowledged Mr. Dingwall's concerns about IT security capabilities. He mentioned Mr. Walther's focus on this area, and the Agency's upcoming identification of a Chief Information Security Officer. Chairman Kennedy thanked Mr. Dingwall for his report, and addressed his concern about the Board's previous resource constraints. Chairman Kennedy noted that the current Board has new members who have experience working with growing pension funds, and understand that as funds grow more resources are needed.

Ms. Flanagan presented the scheduled audits for the 2012 year, including a full scope IT audit, a full scope audit of the participant support process, and an audit of the Board's staff operations. Chairman Kennedy asked if, in the past, the auditors had met with the Board in an executive session to discuss any audit issues. Mr. Dingwall answered that he would be glad to do that, and stressed that if there is something he feels the Board needs to know, they will be told, and that he welcomes interaction with the Board. Mr. McCray recommended the possibility of at least an annual meeting during the audit process. Ms. Bilyeu recommended a review of the implementation of the Roth option in the near future, and stressed the importance of internal assessments in addition to the formal audit process.

#### 5. Hewitt EnnisKnupp Report

Mr. Ivinjack reviewed the Hewitt EnnisKnupp (EK) report entitled "Benchmark Evaluation Report: Thrift Savings Plan." EK did an exhaustive review for every fund and the appropriate index, and it led to a recommendation of no change for the C, S, or F Fund. EK recommends changing the benchmark to the I Fund to one that would include Canada. Mr. Kumar was introduced to focus on the I Fund section of the report.

Mr. Kumar began by pointing the Board to a summary of FERSA's legislative guidelines. The statute requires the Plan to provide broad exposure to non-U.S. equity markets. The starting point for the review is examining the current benchmark for the I Fund, which is the MSCI EAFE (Europe, Australia, and the Far East) index, which is comprised of 22 developed economies. EK examined the

benchmarks, as well as benchmark vendors. For the past twenty years MSCI has been the most popular benchmark of choice that investors have used in benchmarking non-U.S. investments. EK examined other index families but began the process of eliminating them based on either: a) their relevance (meaning how popular they are in the institutional investment community) and b) if the investments are actually being managed against those products on a passive basis. Mr. Kumar explained a comparison in the report between four different indices that were reviewed during the study. He explained that currently the Agency has almost all exposure to developed markets, including the large and mid-cap segments of those markets. Based on the EAFE index currently used, what is missing from a developed market perspective is the country of Canada, and from a global opportunity perspective, part of the small-cap market and emerging markets. EK examined whether it made sense for the Agency to add Canada, which represents the third largest equity market outside of the United States. EK feels the case to add Canada is compelling, and it is a market similar to the U.S. in terms of its regulatory systems, liquidity of the markets, and trade settlement procedures. EK also stated the benefits of adding emerging markets, but did express that emerging markets has challenges in terms of liquidity, as they are often impacted the most, and concluded that the potential risk in those markets in times of stress is most likely too great.

#### 6. Scheduling, Communications and Other Miscellaneous Items

Mr. Long explained that the Agency has recently posted a justification announcement on Federal Business Opportunities, outlining the Agency's intent to award a sole source bridge contract for the base year and two option years to BlackRock. The Agency plans to award the investment management contracts individually and sequentially. Mr. Long also reviewed the upcoming Board meeting calendar. The March Board meeting will be telephonic because of the Agency's upcoming building move. The Board has a scheduled visit to a call center in the spring, and a discussion of operations strategy in July.

Ms. Dmuchowski introduced the communications strategy for the upcoming Roth feature. She presented the Board members with a Roth education leaflet that was distributed with the annual statements, along with a quarterly newsletter introducing the Roth feature. Ms. Dmuchowski also presented a video clip available on the TSP website providing an introduction to the Roth feature.

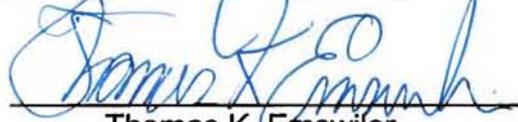
#### 7. Closed Session

On a vote taken by the Chairman, the members closed the meeting at 11:46 a.m. for executive session.

At 12:36 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 12:36 p.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler  
Secretary

**Attachments**

1. Thrift Savings Fund Statistics
2. January 2012 Performance Review –G, F, C, S, I, and L Funds
3. Update on Audit Recommendations 2004-2011
4. 2011 Performance Audit of the Thrift Savings Plan Withdrawals Process
5. 2011 Performance Audit of the Thrift Savings Plan Government Securities Investment Operations
6. Hewitt EnnisKnupp Benchmark Evaluation Report; Thrift Savings Plan