



MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 21, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 21, 2012, at 9:00 a.m., Eastern Time. Parts of the meeting were open to the public at the Board's offices at 77K Street, N.E. 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; James B. Petrick, Secretary and General Counsel; Susan C. Crowder, Acting Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Kimberly A. Weaver, Director, External Affairs; Mark E. Walther, Chief Information Officer; Renee C. Wilder, Director, Research and Strategic Planning; Thomas K. Emswiler, Director, Office of Benefits; Sophie T. Dmuchowski, Deputy Director, Office of Communications; Gisile Goethe, Acting Director, Resource Management; Anne Beemer, Acting Director, Enterprise Risk Management; Karen Vaughn, Roth Project Manager; John Zielinski, Deputy Roth Project Manager.

1. Introductions

Mr. Long reported that there have been some organizational changes since the last Board meeting. The FRTIB created a new position focused entirely on enterprise risk management. The Acting Director of the Office of Enterprise Risk Management is Anne Beemer, a long-term employee at the FRTIB.

Ms. Beemer briefed the Board members on her experience. She started her career with the Congressional Research Service as a research assistant for the senior specialist in housing and urban development. She then moved to the Department of Treasury to work on the Chrysler Corporation Loan Guarantee Board, where her primary responsibility was assessing the operational and economic risks to the Chrysler operating plan. She then moved to work in Domestic Finance group at the Department of Treasury where, among other tasks, she calculated the G Fund rate. Ms. Beemer joined the FRTIB in 1989. Over the years, she acquired expansive knowledge of the FRTIB benefits program, IT systems, and financial system. In 2005, she became the FRTIB's comptroller. She has an A.B. in Economics from Smith and a master's degree from Central Michigan University. She is a Certified Fraud Examiner and a charter member of the newly formed Association of Federal Enterprise Risk Managers.

Mr. Long explained that the FRTIB is doing a full search for a permanent Director of the Office of Enterprise Risk Management. In addition to that role, the FRTIB has created a position for Director of Resource Management. Gisile Goethe is the Acting Director of the Office of Resource Management. Ms. Goethe started her

career at the U.S. Department of Labor working in human resources. She joined the TSP in 1989. Since then she has worked in the Office of External Affairs, the Office of Automated Systems, and the Office of Participant Services. While working in the former Office of Participant Services, she became the Deputy Director for Education and Training. Most recently she has been working as the Acting Chief of HR/Administration. Ms. Goethe is also a Lt. Colonel in the Army Reserves.

The FRTIB's General Counsel, Thomas Emswiler, moved to fill the position of Director of Benefits and James Petrick took Tom Emswiler's place as General Counsel. Mr. Petrick graduated from the University of Pennsylvania and Stanford Law School. He started his career at the Postal Service working as a labor lawyer. He then moved to the Department of Labor where he spent five years conducting fiduciary litigation under the Employee Retirement Income Security Act. He then moved to the Department of Justice where he conducted litigation under the False Claims Act. He joined the FRTIB in 1986. His first job at the FRTIB was Assistant General Counsel for benefit programs. He then worked as the Director of the former Office of Benefits and Investments between 1999 and 2005. In 2005, he became the Chief Financial Officer. He worked as the FRTIB's Chief Financial Officer until he took the position as General Counsel.

As Mr. Petrick left his position as Chief Financial Officer, Susan Crowder became the Acting Chief Financial Officer. Ms. Crowder has 19 ½ years of federal financial management experience. Here at the FRTIB, she worked her way up from staff accountant to Deputy Chief Financial Officer and now to Acting Chief Financial Officer. She has a master's degree in accountancy and a computer science degree. She started her career at the Department of State where she was in charge of the Bureau of International Operations and was assigned 12 funds to manage. Ms. Crowder was also a member of the United States Air Force stationed in Elmendorf, Alaska as a secure operations communications specialist.

2. Approval of the minutes of the April 30, 2012 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the April 30, 2012 Board member meeting. Mr. McCray noted that the minutes seem to suggest that the Board might have been approving the ETAC minutes and vice versa. Mr. Petrick agreed to make a clarifying amendment to the minutes. The Board will approve the amended minutes at the next Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on April 30, 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 holds \$312 billion assets in trust, and the FERS participation rate is currently 86.4%. The participation rate for members of the Ready Reserve tends to fluctuate from month to month, but the active duty participation rate continues to hover at just under 40%. She also reported that almost 70% of automatically enrolled participants show some activity such as making a contribution allocation, requesting an interfund transfer, or rolling money to the TSP from another plan.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "April 2012 Performance Review – G, F, C, S, I, and L Funds" (attached). All funds tracked their indices closely during April except for the I Fund. The I Fund outperformed its index by 9 basis points during April and by 15 basis points year-to-date. Much of the tracking error in the I Fund is the result of the tax effect. The index is reduced for taxes paid but the TSP does not pay taxes.

The F Fund trading costs are 11.7 basis points year-to-date despite the fact that the F Fund trading costs were 3.5 basis points in April. Lower liquidity in the bond market produced higher trading costs for the F Fund at the beginning of the year. As a result of the financial crisis and subsequently issued regulations governing short selling, banks are no longer able to short sell as many bonds. Ms. Ray noted there has been some effort to try to create more liquidity in the bond markets. For example, BlackRock announced that they are creating a trading platform to cross trade bonds among the accounts that BlackRock manages. However, the implementation of this trading platform will occur slowly and will not affect the TSP for quite some time.

The G Fund rate declined to 1.63%. Ms. Ray predicts that the G Fund rate will decline again in June because the 10 year T-note rate has fallen from 1.92% to 1.74% and the 30 year T-bond has fallen from 3.11% to 2.85%.

The F Fund was positive in April, but all of the stock funds were slightly negative. Ms. Ray noted that seven out of seventeen of the countries in the Euro Zone are officially in recession. So far in May, the C Fund has fallen 7%, the S Fund has fallen 9%, and the I Fund has fallen 10%. The Dow Jones Industrial Average was down 12 days in a row. However, most of the funds are still positive year-to-date. The I Fund, which is down 2% year-to-date, is the only negative stock fund year-to-date.

c. Legislative Report

Ms. Weaver reported that Senator Akaka introduced S. 3175. This bill would give the Board the authority to add automatic escalation to the TSP's automatic enrollment feature. It would allow the TSP to increase the contribution percentage for automatically enrolled participants by 1% each year for two years. Ms.

Weaver pointed out that it only applies to employees hired after the date of enactment. Those who have already been automatically enrolled will not be affected.

Ms. Bilyeu asked if a participant who is already enrolled prior to the date of enactment can voluntarily request automatic escalation. Ms. Weaver said there is no mechanism in the bill that would allow for automatic escalation at the affirmative election of the participant.

Ms. Weaver added that the bill has been referred to committee and will be marked up later this summer. Mr. Long reminded the Board that the TSP has declined to offer Senator Akaka any recommendations with respect automatic escalation until the TSP completes a demographic report.

Ms. Weaver also discussed S. 1515. This bill would allow approximately 125 Secret Service employees who were hired in 1983 through 1985 to use their Thrift Saving Plan balances to buy into the D.C. Police and Firefighter Retirement and Disability System. The Senate Homeland Security and Governmental Affairs Committee marked up this bill last week. It was amended, and the TSP's concerns were addressed. The TSP Funds are no longer used as a pay-for in the bill.

4. Roth Project Presentation

Karen Vaughn presented the PowerPoint presentation entitled "Project Management at the FRTIB: Roth Project Overview" (attached). Mr. McCray asked if the systems effort for the Roth project was primarily internal or if it involved systems of other agencies, like the Office of Personnel Management. Mr. Zielinski answered that the affected systems were primarily internal. Mr. Emswiler explained that employing agencies had to program their systems to provide the TSP with payroll records. The TSP defined the requirements for employing agencies and employing agencies are responsible for implementing those requirements.

Ms. Bilyeu asked who drafted the use cases for User Acceptance Testing. Mr. Zielinski explained that Ed Main in the Office of Automated System drafted the use cases. Mr. McCray suggested that the FRTIB should document lessons learned from the Roth project. Ms. Wilder and Ms. Vaughn assured him that lessons learned sessions are being scheduled.

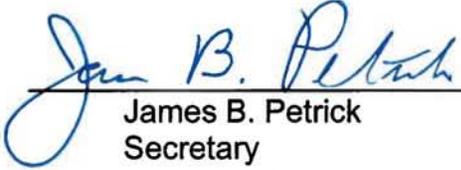
5. Closed Session

On a vote taken by the Chairman, the members closed the meeting at 9:57 a.m. for executive session.

At 10:52 a.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 10:52 a.m.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. April 2012 Performance Review –G, F, C, S, I, and L Funds
3. Project Management at the FRTIB: Roth Project Overview