



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

MINUTES OF THE JOINT MEETING OF THE BOARD MEMBERS AND THE
EMPLOYEE THRIFT ADVISORY COUNCIL

April 22, 2013

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board (Agency), and Clifford Dailing, Chairman of the Employee Thrift Advisory Council (ETAC), convened a joint meeting of the Board members and ETAC on April 22, 2013, at 9:00 a.m., Eastern Time. Parts of the meeting were open to the public at the Board's offices at 77 K Street, N.E. and parts were closed to the public. In attendance for the Agency 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, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Kimberly A. Weaver, Director, External Affairs; Renee C. Wilder, Director, Office of Enterprise Planning; Thomas K. Emswiler, Director, Office of Benefits; Mark E. Walther, Chief Technology Officer; Jay Ahuja, Chief Risk Officer, Office of Enterprise Risk Management; Sophie T. Dmuchowski, Acting Director, Office of Communications and Education; Carole Lieber, Human Resources Director; Toni Bush-Neal, Executive Advisor to the Executive Director. In attendance for ETAC were Richard Strombotne, NALC; William Dougan, NFFE; Cathy Ball, NTEU; Jacqueline Simon, AFGE; Sharon Roydes, FEW; Steven Galing, DoD; Sarah Suszcyk, NAGE; Jeremy Goldbert, NALC; John Hatton, NARFE; and Todd Wells, FMA.

1. Welcome and Introductions.

Chairman Kennedy called to order the monthly meeting of the Federal Retirement Thrift Investment Board, and welcomed everyone present to the joint FRTIB/ETAC meeting. The Board Members, FRTIB staff, and ETAC members introduced themselves.

2. Approval of the minutes of the March 25, 2013 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the March 25, 2013 Board member meeting. The following motion was made, seconded, and adopted without objection by the FRTIB Board:

MOTION: That the minutes of the Board member meeting that was held on March 25, 2013 be approved.

3. Approval of the minutes of the October 9, 2012 ETAC meeting.

Chairman Dailing entertained a motion for approval of the minutes of the

October 9, 2012 ETAC meeting. The motion was made, seconded, and adopted without objection by ETAC.

4. 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). In March, the TSP participation rate reached 87.1 percent, which is its first time surpassing 87 percent since 2004. Assets under management are approaching \$350 billion, and approximately 20,000 Roth accounts are being created each month.

b. Quarterly Investment Policy Review

Ms. Ray reviewed the fund performance memorandum, entitled "March 2013 Performance Review – G, F, C, S, I, and L Funds" (attached). The first page compares BlackRock Funds' performance against their underlying indices both for the month of March and year-to-date. There is a 6 basis point tracking error in the International Fund as a result of the tax effect. Year-to-date, the Fixed Income Fund is outperforming the Index by 13 basis points as a result of a pricing service change that was made in January, and the International Fund is underperforming the index by 81 basis points, due mostly to a fair value pricing at the end of December.

For the month of April to date, the C Fund is down 0.8 percent, the S Fund is down 2.95 percent, the I Fund is up 0.1 percent, and the F Fund is up 0.8 percent. On page 6 of the Performance Review Report, Ms. Ray explained that in March, \$2.5 billion was transferred out of fixed income funds and into equity funds by participants.

Ms. Ray directed the Board's attention to page 10 of the memorandum, and explained that every quarter an independent auditor ensures that the investment manager votes in accordance with its proxy voting policy.

The Board members then 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.

c. Legislative Report

Ms. Weaver reported that furloughs have taken effect for a number of agencies. Ms. Weaver highlighted a recent report, "Labor and IRS could Improve the Rollover Process for Participants" released by GAO in early April, that found that the rollover process out of employer 401k plans favors distribution to IRAs. GAO recommended that the Department of Labor and the IRS try to reduce the obstacles for plan to plan rollovers.

The President's administration issued its budget in April, and it included a proposal for a one percent pay increase for Federal employees that would go into effect in January of 2014. It also recommends increasing retirement contributions for all current employees hired prior to 2013 by 1.2 percent, which would be phased in over three years, and eliminating the FERS annuity supplement for new employees. Ms. Weaver explained that the Administration's budget proposed a number of changes to retirement plans that could affect TSP participants that are currently under review by the FRTIB. One proposal would limit the amount of money that any participant could accumulate in a defined benefit plan and any other tax-favored plan like 401k plans or IRAs, to an amount that would yield an annual benefit of \$205,000.

5. Quarterly Vendor Financials.

Mr. Long introduced Ms. Crowder, and explained that the purpose of the vendor financial report is to ensure that the Agency's vendors are financially stable and capable of providing service on an ongoing basis. Ms. Crowder reviewed the memorandum, entitled "Quarterly Financial Assessment of TSP's Primary Vendors – April 2013" (attached).

Serco International provides recordkeeping services to the Board, including software development and maintenance, data center operations, data entry support and operation of the Virginia call center. Serco reported revenue of \$4.9 billion for year end 2012, which was up 5.7 percent from 2011, and an increase in net profit of 40 percent. The Agency found no indication that Serco would be unable to fulfill its contractual obligations to the FRTIB.

BlackRock provides investment management services for the C, F, S, and I Funds. BlackRock recorded total assets under management of \$3.7 trillion at year end 2012, with a total revenue of \$9.3 billion and a net income of \$2.4 billion. The Agency found no indication that BlackRock would be unable to fulfill its contractual obligations to the FRTIB.

Equinix hosts data center services for the TSP. Equinix reported revenue of \$1.9 billion at year end 2012, which was an increase of 21 percent from 2011. The Agency found no indication that Equinix would be unable to fulfill its contractual obligations to the FRTIB.

R.R. Donnelley is the largest printer in the United States. It provides printing and mailing services for the TSP. R.R. Donnelly reported net sales of \$10.2 billion, down 4 percent from year-end 2011. The company reported a net loss for the year due to restructuring and impairment charges. The Agency found no indication that R.R. Donnelly would be unable to fulfill its contractual obligations to the FRTIB.

MetLife is the TSP's annuity provider. MetLife reported net income of \$1.2 billion for 2012, down 80 percent from the \$6.2 billion gain reported in 2011. MetLife attributes the change predominantly to a \$6.7 billion unfavorable charge in derivative gain/loss, primarily driven by changes in interest rates, equity market movements, decreased volatility and the impact of a nonperformance risk adjustment. The Agency found no indication that Met Life would be unable to fulfill its contractual obligations to the FRTIB.

Active Network operates the TSP's Maryland call center. Active Network reported total net revenues of \$418 million for 2012, an increase of 24 percent from 2011. According to the company's 10K filing, the company is not aware of any pending or threatened litigation that would be reasonably likely to have a material adverse effect on the results of operations, financial position, or liquidity. The Agency will continue to monitor Active Network's financial data to ensure they remain able to fulfill their obligations to the FRTIB. Mr. Jones remarked that the stock prices of Active Network have fallen since December, which suggests the marketplace is concerned with its continuing losses. Ms. Crowder agreed, and Mr. Long remarked that the Agency receives regular reports from Active Network, and is proactively monitoring its ability to fulfill its obligations.

SunGard owns and maintains the OMNI suite of software products that the Agency uses as its core software applications and is a key subcontractor to Serco.

SunGard reported net revenues of \$4.3 billion for 2012, down 4 percent from 2011. The Agency has no basis to believe that SunGard will not be able to perform its contractual obligations to the FRTIB or to Serco.

Ms. Crowder also mentioned that the Quarterly Vendor Financial Review process would be transferred to the Office of Enterprise Risk Management. As a result, Mr. Ahuja, the Agency's Chief Risk Officer will present this analysis at the July Board meeting and thereafter.

6. Annual Financial Audit.

Mr. Ahuja introduced Ms. Marie Caputo, an engagement partner with CliftonLarsonAllen. Ms. Caputo presented an overview of the 2012 Financial Statement audit results (attached). The audit was conducted in accordance with U.S. Generally Accepted Auditing Standards (GAAS), and is designed to obtain reasonable assurance about whether the financial statements are free of material misstatements. Ms. Caputo reported that the result of the 2012 audit was an unmodified clean opinion that the financial statements are presented fairly and in all material respects are in conformity with U.S. Generally Accepted Accounting Principles (GAAP). This is the highest assurance she can give to the Agency. No material weaknesses were identified within the internal controls of the TSP. One significant control deficiency was identified. Ms. Caputo explained that a significant deficiency is one that could potentially result in a misstatement of financial data. Ms. Caputo introduced Mr. David Scaffido, the IT Audit Manager for CliftonLarsonAllen, who reported that the Agency has made significant improvements in the overall security program and has set a foundation for addressing current issues identified during Fiscal Year 2012.

Mr. Scaffido stated that CliftonLarsonAllen closed three findings from the prior year, six prior year issues remain open, and three new issues were identified. Mr. Scaffido briefly identified the issues, including initial security awareness training, vulnerability management program, access control issues, and continuity planning issues, as well as the Agency's target solution date for each issue.

7. Office of Enterprise Planning Report.

Mr. Long explained to the members of ETAC that throughout the year, each of the offices presents an overview of their responsibilities to the Board. Ms. Wilder gave an overview of the Office of Enterprise Planning, which is responsible for providing project management expertise, helping the Agency's strategic and acquisition planning efforts, and preparing research to inform and help shape the Agency in strategic decision making.

8. Default Investment Fund Option.

The Office of Enterprise Planning presented a memo (attached) examining the possibility of changing the default investment option for new participants joining the

TSP. Currently, new participants are defaulted into the G Fund and remain invested in this fund until they make an election directing their contributions into one or more of the other fund options available in the TSP. The Office of Enterprise Planning examined participant behavior and found that, for long-term investors, the Lifecycle Funds would be a more appropriate default option. Chairman Kennedy thanked Ms. Wilder for her report, and opened the floor for comments. Mr. Long remarked that defaulting to age appropriate Life Cycle funds is a process that most private sector plans have implemented, and also remarked that this would not be a decision that would be made in a day. If the Board voted to approve a change to the default investment option, the change would require Congressional action. Mr. Long, the Board Members, and members of ETAC discussed the default investment fund option. Some members of ETAC voiced strong opposition to the proposed change, instead favoring the current G Fund default option. Others expressed a desire for more information, particularly about current education efforts for those who do not make an election out of the G Fund, and others voiced support for the changed option. All ETAC members agreed to discuss the potential change with their representative groups, and resume discussion in the fall.

9. Communications Update.

Ms. Dmuchowski reviewed the status of communication and education initiatives (attached), including webinars, interactive tools, and the creation of a YouTube channel. Ms. Dmuchowski reported that the Communications Office had recently won first place from the National Association of Government Communicators for an educational mousepad for participants, and an award of excellence for two short videos introducing the Roth option. A short YouTube video called "What do You Pay to Save?" was shown to attendees, comparing the costs of the TSP to other plans, and is available on the TSP channel TSP4gov.

10. Sequestration and the TSP.

Mr. Long reviewed a memorandum (attached) addressing inquiries from ETAC about what alterations and assistance can be provided to TSP participants impacted by sequestration and furloughs. In response to those inquiries, the TSP released a new fact sheet explaining the effects of sequestration on TSP accounts. The FRTIB also examined the possibility of allowing participants to take a second general purpose loan from their account, but determined that it ultimately may not help participants, and would require thousands of hours of work to implement. In response to an inquiry from an ETAC member, Mr. Long also noted that participants have the ability to reamortize their loan over a longer period, up to five years for a general purpose loan.

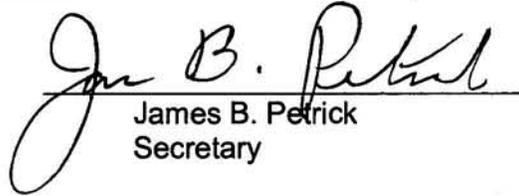
4. Closed Session

On a vote taken by Chairman Kennedy the members of the Board closed the joint meeting at 11:52 a.m. for an executive meeting of the Board members.

At 12:25 p.m., upon completion of the executive session, the Board 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 12:25 p.m.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. March 2013 Performance Review –G, F, C, S, I, and L Funds
3. Quarterly Financial Assessment of TSP's Primary Vendors – April 2013
4. Office of Enterprise Planning- PowerPoint
5. Default Investment Fund Option Memorandum to the Executive Director
6. FRTIB- Thrift Savings Fund- 2012 Audit Results PowerPoint
7. Status of Communication and Education Initiatives
8. Furloughs/ Thrift Savings Plan- Memorandum to the Employee Thrift Advisory Council, and attachments