



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

May 18, 2015

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 18, 2015, at 8:30 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Oregon, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Greg Long, Executive Director; James B. Petrick, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Renée C. Wilder, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Thomas K. Emswiler, Director, Office of Participant Operations and Policy; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Scott Cragg, Chief Technology Officer, Ravindra Deo, Chief Investment Officer; and Charles Bradshaw, Executive Advisor to the Executive Director. In attendance for ETAC were Clifford Dailing, National Rural Letter Carriers' Association; Sarah Suszczyk, National Association of Government Employees; Cathy Ball, National Treasury Employees Union; Myke Reid, American Postal Workers Union; William Dougan, National Federation of Federal Employees; Jacqueline Simon, American Federation of Government Employees; Steve Galing, Department of Defense; Jessica Klement, National Active and Retired Federal Employees Association; Todd Wells, Federal Managers Association; Georgia Thomas, Federally Employed Women, Inc.; Jim Holland, National Association of Letter Carriers; and John Seal, Senior Executives Association.

1. Welcome and Introductions.

Chairman Kennedy called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 8:33 a.m. Chairman Dailing subsequently called to order the Employee Thrift Advisory Council (ETAC) meeting. Chairman Kennedy 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 April 20, 2015 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the April 20, 2015 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 April 20, 2015 be approved.

3. Approval of the Minutes of the November 12, 2014 ETAC Meeting.

Chairman Dailing entertained a motion for approval of the minutes of the November 12, 2014 ETAC meeting, subject to several technical corrections. The motion was made, seconded, and adopted without objection by the ETAC.

4. Selection of ETAC Chairman and Vice Chairman.

Chairman Kennedy turned the meeting over to Chairman Dailing for the selection of the ETAC Chairman and Vice Chairman. Chairman Dailing stated that the current Chairman and Vice Chairman are willing to continue to serve in these roles, and opened the selection process up for comment. Upon hearing no comments, Chairman Dailing entertained a motion to re-nominate himself to serve as the Chairman of the ETAC and James Sauber to serve as the Vice Chairman of the ETAC. The motion was made, seconded, and adopted without objection by the ETAC.

5. Monthly Reports.

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting.

a. Monthly Participant Activity Report

Mr. Emswiler reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Emswiler announced that the overall Plan balance increased by \$3 billion to \$453 billion, with Roth assets increasing by \$130 million to \$2.561 billion. The FERS participation rate inched up 1/10 of a percent to a new high of 88.5 percent, and is up a full percentage point from the previous 2014 which was reaching in July 2014, likely because of auto-enrollment. The FERS auto-enrollment opt-out rate has remained consistent at about 3.9 percent. Uniformed services participants now hold approximately 52 percent of the Plan's Roth accounts, even though they only constitute approximately 24 percent of TSP participants. Approximately \$115.5million was transferred into the Plan last month and our run rate through April would lead to a new record of \$1.25 billion.

b. Monthly Investment Performance Report

Mr. Long introduced the Agency's new Chief Investment Officer, Ravindra Deo, to ETAC, and he reviewed the monthly investment performance report. See "April 2015 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo examined the tracking error of BlackRock-managed funds versus their underlying indices, noting that, for the month of April, the F Fund had a positive tracking error of 8 basis points primarily due to pricing differences and securities lending income, and the S Fund had a positive tracking of 5 basis points primarily due to securities lending income. The I Fund had a positive tracking error of 91 basis points for the year primarily due to a fair value pricing adjustment. For the year the I Fund allocation helped the L Fund significantly.

In June to date, the C, S, and I Funds increased by about 2 percent. The F Fund decreased by 0.41 percent.

c. Legislative Report

Ms. Weaver stated that the House and Senate are moving towards automatically enrolling new uniformed services members in the TSP on a prospective basis, which would, if passed, be effective in October of 2017. Ms. Weaver also stated that the budget resolution has been approved and calls for \$194 billion in retirement savings over the next ten years, which would not be subject to reconciliation. Ms. Weaver mentioned that the House passed a bill to enable federal law enforcement officials and state and local public safety officers to make withdrawals from the TSP at the age of 50 without incurring penalties, since they typically have to retire at an earlier date. If passed by the Senate, the measure would take effect retroactively on December 31, 2014. Finally, Ms. Weaver stated that the Agency would continue to oppose two measures introduced in the House, one that would create socially responsible investment funds in the TSP and another that would create a gender diversity index fund.

6. Quarterly Metrics Report.

Ms. Toni Bush Neal, of the Office of Enterprise Planning (OEP), provided an overview of the Agency's performance metrics for the second quarter of fiscal year 2015. See "FRTIB Performance Metrics: 2nd Quarter Fiscal Year 2015" (attached). Ms. Bush Neal explained that the Agency's key performance indicators (KPI) are closely aligned with the Agency's strategic goals. She also noted that, unless there were questions, she would speak only to the metrics which are shown as below target or threshold.

The Agency's first strategic goal is to "help people retire with dignity." Aligned with that goal is an objective to reach an average FERS participation rate of 90 percent, although for the second quarter of fiscal year 2015 the result was just shy of that, at 88 percent. Ms. Bush Neal mentioned that, as of March 2015, 45.9 percent of FERS participants retained a TSP balance one year after separation, which represents a decrease from last quarter. Ms. Bush Neal explained that the decrease may have reflected the increase in retirement activity early in the year, but that she would continue to monitor this trend. Ms. Bush Neal stated that the active duty uniformed services member average participation rate fell just below the Agency's historical average for service member participation. Ms. Bush Neal noted that the average asset allocation metric rose 0.25 percent, but needed to move 0.50 percent to surpass the Agency's target.

Ms. Bush Neal mentioned that the metrics under the Agency's second strategic goal, "we ensure that FRTIB is a great place to work," are compiled annually, and thus there were no metrics to report on for this quarter. The Agency's third strategic goal is to pursue flawless operations, and Ms. Bush Neal reported that the

Agency had met its targets for participant account availability and investing and withdrawal processing times. Due to inclement weather conditions that closed the TSP call centers in February, the target for call center availability was not met for the second quarter. Ms. Bush Neal explained that in the second quarter of FY 2015, there was an increase of 56 thousand more calls to participant call centers than in the first quarter. The metrics showed that 89.5 percent of calls to TSP call centers were answered within 20 seconds, falling just shy of the target rate of 90 percent. Mr. Long and Mr. Emswiler both stated that the call centers are back on schedule.

Under the Agency's fourth strategic goal, "we maintain excellent relationships with entities that oversee, regulate, govern, and influence the TSP," Ms. Bush Neal reported that the Agency responded timely to the one draft audit report issued in second quarter, and that the Agency closed 7 of the findings scheduled for closure, falling four short of the 11 scheduled. Mr. Ahuja noted that the four open findings relate to the development of procedures, and that he anticipates closing those findings by the end of June.

#### 7. Update on Audit Activity.

Mr. Long provided an update on the Agency's progress on information technology (IT) security. See "IT Security & the TSP: A Fact-Based Review" (attached). Mr. Long stated that, at the previous Board meeting, the Agency received feedback and reports from its two auditors CliftonLarsonAllen, and the Department of Labor's Employee Benefits Security Administration (EBSA). Mr. Long explained that because the auditors reviewed similar information but reached different conclusions, he wanted to provide an overview of the TSP's information security history and an outline of its structure.

Mr. Long explained that the Agency's IT security program was understaffed prior to 2012, but since then, the Agency has dedicated meaningful resources to enhance the program. Mr. Long further noted that in 2014, the Agency created a security operations center (SOC) and designated a Senior Agency Official for Privacy (SAOP), and in 2015, the Board approved the first internal audit plan. Mr. Long explained that the Agency has updated vendor contracts to include specific information security clauses and has also recently updated its information security policies.

Mr. Long stated that the Agency actively worked on closing audit findings and is currently working to complete existing Plans of Actions & Milestones (POA&Ms). Mr. Long explained that the Agency completed several system authorizations, and expects that the remaining five system authorizations will be completed by the end of the calendar year. Mr. Long emphasized that the Agency would complete penetration testing of its networks, noting that the testing would begin by mid-July. Finally, Mr. Long discussed the Agency's efforts towards implementing adaptive authentication for when participants log into their accounts. Chairman Kennedy stated that the Agency has taken the issue of information security seriously and emphasized the Board's continued

commitment to provide the necessary resources to close existing audit findings and address IT security.

8. Office of Communications and Education Report.

Mr. Courtney highlighted avenues of communication from the Agency to participants and beneficiaries. See "OCE Annual Board Report" (attached). These include the TSP.gov website, social media channels, printed materials, and webinars. Mr. Courtney stated that webinars were a particularly useful way of educating participants, noting that 1,400 people viewed a recent webinar that OCE coordinated with the Office of Personnel Management. Mr. Courtney further stated that 150 Air Force planners recently participated in a second webinar. Mr. Courtney also noted that OCE has produced seven videos this year.

Mr. Courtney highlighted the Agency's participation in the Financial Literacy Education Council (FLEC) pilot program, stating that FLEC had made TSP its sole communication issue for the year, and that 8 federal agencies will be emailing their employees strategic messages throughout the year and measuring differences in behavior as a result. Mr. Courtney discussed the Agency's recent email collection initiative, stating that the Agency has collected 251,000 emails in two weeks since the initiative began. Mr. Courtney also highlighted the Agency's retirement score card, a tool designed to educate participants about the costs associated with rolling their money out of the TSP.

Finally, Mr. Courtney highlighted the results from the "Take Five for Your Future" campaign, noting that the campaign received the Pension and Investments first place Eddy award in 2015. Mr. Courtney explained that approximately 18 percent of the targeted participants increased their deferral amount which resulted in a 25 percent increase in monthly contributions. Mr. Courtney stated that these numbers exceeded his expectations.

9. Office of Enterprise Planning Report/Benchmarking Presentation.

Ms. Wilder provided an overview of the Office of Enterprise Planning (OEP) annual report. See "OEP Annual Board Report" (attached). Ms. Wilder began by explaining that OEP 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. Ms. Wilder outlined the TSP Benchmarking Initiative, stating that, with external support, the Agency has compared Plan benefits, services, process, and costs to other defined contribution providers in order to identify opportunities for improvement and cost reduction for the TSP.

Ms. Wilder also highlighted key plan design recommendations, including withdrawal flexibility, greater investment diversity, and online advisory assistance. Ms. Wilder stated that the Agency is considering additional measures, such as auto-

escalation, automatically restarting contributions six months post-hardship withdrawal, and reducing our dependence on paper forms.

10. Now & Later Presentation

Mr. Long began his presentation by stating that every five years the Agency's senior leaders develop a new Strategic Plan for the Agency. Mr. Long stated that the Now & Later presentation proposes a vision of the future and that the Strategic Plan he will deliver to the Board next year, will articulate the steps we should take to make this vision real. Mr. Long added that to the extent stakeholders disagree with the vision presented today, they should make those views known.

Mr. Long presented his vision by telling a story about a hypothetical participant ("Lauryn") and provided examples about how she interacts with the TSP now, and how she would interact with the TSP later, if the Agency implements key changes. Mr. Long stated that, currently, the Agency does not interact with participants until they make a contribution, explaining that, in the future, the Agency could be more proactive in communicating with participants. Mr. Long also stated that he would like to change the way the Agency serves participants, moving from a re-active model built to provide transaction support to a pro-active model built to help participants make better decisions based on their goals. Mr. Long also outlined plans for making it easier for participants to amend their beneficiary designations, providing increased person-to-person contact, and highlighted ways in which participants could make changes to their accounts online. The Now and Later presentation outlined multiple ways a participant could be impacted by different communication strategies and key changes the Agency might implement.

11. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Dailing adjourned the ETAC meeting at 11:41 a.m.

MOTION: That this meeting be adjourned.

Following ETAC adjournment, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 11:41 a.m.

MOTION: That this meeting be adjourned.

  
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James B. Petrick  
Secretary

## Attachments

1. Thrift Savings Fund Statistics
2. April 2015 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Metrics: 2nd Quarter Fiscal Year 2015
4. IT Security & the TSP: A Fact-Based Review
5. OCE Annual Board Report
6. OEP Annual Board Report
7. Now and Later Presentation