



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 10, 2015

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 10, 2015, at 8:31 a.m., Eastern Time. Parts of the meeting were open to the public and parts of the meeting were closed at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Nevada, 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; Kimberly A. Weaver, Director, External Affairs; Khatrina Higgs, Deputy Chief Financial Officer; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Scott Cragg, Chief Technology Officer; Ravindra Deo, Chief Investment Officer; Renée C. Wilder Guerin, Acting Director, Office of Participant Operations and Policy; Karen Vaughn Peck, Acting Director, Office of Enterprise Planning; and Charles Bradshaw, Executive Advisor to the Executive Director.

1. Executive Session

Chairman Kennedy called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 8:31 a.m. On a vote taken by the Chairman, the members immediately closed the meeting for executive session.

At 10:00 a.m., upon completion of the executive session, the members convened the open portion of the meeting.

2. Approval of the minutes of the August 24, 2015 Board member meeting

Chairman Kennedy entertained a motion for approval of the minutes of the August 24, 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 August 24, 2015 be approved.

3. Thrift Savings Plan (TSP) Activity Report

Mr. Long gave opening remarks, and indicated that the meeting would cover the annual budget review, automatic escalation, audit reports, recent communications efforts, and a deep dive on the Office of Enterprise Risk Management.

a. Monthly Participant Activity Report

Ms. Wilder Guerin provided an overview of the Monthly Participant Activity Report. See "Thrift Savings Fund Statistics" (attached). She noted that despite the market volatility in late August, the participation rate and number of Plan participants had remained unchanged. She further indicated that roll-ins had increased and would surpass 2014 roll-in numbers if the current rate continued. Member Jasien asked what was driving the roll-in rate. Mr. Courtney explained that having a consistent message to participants to consolidate their retirement accounts in the TSP seemed to have made a difference. Mr. Long further elaborated that the Now & Later campaign was one way the Agency was moving towards making roll-ins easier for participants.

Ms. Wilder Guerin noted that the Plan normally had a call volume of roughly 12,000 calls a day but that the number spiked to over 30,000 a day on August 24th in conjunction with volatility in the stock market. She indicated that inter-fund transfer activity jumped 628 percent for that day with participants moving almost \$4 billion out of the C and S Funds and into the G Fund. Mr. Long pointed out that while activity was certainly higher in the volatile market, the overwhelming majority of participants did nothing. Mr. Courtney indicated that the Plan issued a tweet stating, "Let your plan—not the market—guide your investment decisions." The tweet linked to a page on the TSP website entitled "Avoid Chasing Returns," which cautions readers not to let market fluctuations determine their behavior.

b. Monthly Investment Performance Report

Mr. Deo reviewed the fund performance memorandum entitled "August Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo noted that BlackRock Trust Company (BTC) added 8 basis points of return in the S Fund due to sampling and securities lending. He also noted that while the market volatility hurt the individual participants that moved money out of the equities funds and into the G Fund, that movement created negative transaction costs in the C and S Funds of -22.7 basis points and -27.8 basis points respectively. He explained that these costs meant that individual shareholders that transacted hurt themselves, but in doing so enriched the vast majority of non-transacting shareholders. Mr. Deo noted that because of the delay between information and when trades can be placed, the I Fund had significantly higher than normal transaction costs of 31 basis points. He then explained that Greek market volatility had negligible effects on the Plan while the Chinese market activity had a much bigger impact because of its size.

For the month of August, the F Fund decreased by 0.11 percent, the C Fund decreased by 6 percent, the S Fund decreased by 5.8 percent, and the I Fund decreased by 7.3 percent. Mr. Deo noted that the declines in all four funds were directly attributable to the volatility in the Chinese market. He concluded by noting that through the close of business on September 9th, the F Fund has slightly increased over August and that the C, S, and I Funds are all down about 1.5 percent or less over the end of August.

c. Legislative Report

Ms. Weaver said that there were only eight legislative days left in the fiscal year and that her office was focused on the National Defense Authorization Act. She said that the Senate seemed less likely to pass it in September because of its calendar but that the House had said it wanted to get it done soon.

4. Automatic Escalation

Mr. Long explained that five years ago the Plan started automatic enrollment for new Federal employees. He then explained that the same law that created automatic enrollment also empowered the Executive Director to select the automatic enrollment rate between 2 and 5 percent. He explained that he had set the rate at 3 percent based on research at the time, but that the Plan was geared to participants maintaining a 5 percent rate. Mr. Long then proposed maintaining the initial 3 percent rate with an escalation of 1 percent each year until the participant population reached 5 percent. He explained that this would need legislation and that the Agency would also solicit input from the Employee Thrift Advisory Council (ETAC) prior to instituting an automatic escalation.

Member Jasien suggested Mr. Long compile data on higher automatic enrollment rates and the opt-out rates to determine what the difference would be at higher enrollment rates. Mr. Long explained that the current opt-out rate was 4 percent, which is less than the rate found in industry.

Chairman Kennedy indicated the members seemed receptive to the idea of moving toward an automatic enrollment rate of 5 percent, and that Mr. Long should reach out to the ETAC to solicit feedback. Member Bilyeu agreed but said that Mr. Long should also consider simply raising the automatic enrollment rate as that was already within his discretion to do.

Mr. Long indicated that he and Ms. Weaver would raise the issue at the next meeting with the ETAC.

5. OCE Communication

Mr. Courtney discussed the steps that OCE had taken to address the issue of participants rolling their retirement funds out of the TSP after leaving Federal Service. He explained that OCE had created a response at two different levels. First, they created a scorecard for individuals to use in assessing the sales pitch of private investment managers. Second, OCE created a talking paper for Human Resources personnel to address the speakers they brought in to teach Federal workers about their retirement options.

6. FY 16 Budget Review and Approval

Mr. Long and Mr. Walther presented the FY16 budget request to the Board. Mr. Long noted that assets were expected to continue growing in the TSP for the foreseeable future, with the estimate at the end of 2016 to be almost \$491 billion. Mr. Long further explained that the ratio of the Agency's budget to assets normally stayed between 4 and 5 basis points, and that the requested budget was consistent with that ratio.

Mr. Walther described the many accomplishments the Agency had made with the 2015 budget. He noted that the 2015 approved budget was \$207 million. He described the administrative changes that had been made, including finishing the 9th floor construction, the move to institute the L Fund Default, the expansion of communications operations to collect participant email addresses, and the expanded cyber security footprint of the Agency.

Mr. Walther said that the 2016 budget request was for just under \$220 million. He explained that there were four major categories for expenditures: record-keeping, communications, personnel, and agency operations. He described the Agency's staffing levels and noted that the Agency was currently under the approved staffing levels. He stated that the Agency would be slowing down hiring for new positions and would instead focus on filling the existing vacancies.

Mr. Long then explained the major themes of the 2016 budget request, which were cyber security and closing audit findings. Mr. Cragg outlined the cyber security improvements that the Agency was implementing that the 2016 budget would support. Mr. Long stated that these extra efforts were estimated to cost about \$7.9 million in additional funding. Mr. Ahuja then noted that the number of audits the Agency was subject to increased drastically in the last few years. He explained that while the Agency welcomed the oversight, significant infrastructure was necessary to support the audits.

Mr. Long said that the other major legislative impact on the horizon was the possible inclusion of uniformed service members in the TSP. He explained that should Congress pass legislation mandating this, the Agency would need to be able to absorb up to hundreds of thousands of new participants.

Mr. Long next outlined the "Now & Later" program and the additional planning and projects that would be required to expand the Agency's ability to serve its participants and beneficiaries. Ms. Wilder Guerin then explained the anticipated ExPRESS procurement that would consolidate all of the Agency's back office operations into one contract. Finally, Mr. Walther explained the Financial Systems Modernization project and outlined the productivity gains and security improvements that would result from automating many of the otherwise redundant manual processes the Agency was currently using.

With no further questions from the Board, the following motion was made, seconded, and adopted without objection:

be approved.

MOTION: That the budget request of \$219.9 million for fiscal year 2016

7. **Audit Report**

Mr. Ahuja next explained the results of three new audit reports. The first report primarily dealt with the G Fund transactions with the U.S. Treasury. There were no instances of non-compliance with FERSA found by the auditors, no prior audit

recommendations and no new recommendations. The second report dealt with the TSP loan process and the Agency procedures for processing loan requests. This audit also found no instances of non-compliance with FERSA, noted the closure of one prior audit finding, and had no new audit recommendations. The third report dealt with computer access and security controls. This audit found internal control weaknesses that could adversely affect TSP operations and resulted in 10 new findings. In addition, six recommendations from previous years remain open.

8. OERM Report

Mr. Ahuja then gave an overview of the responsibilities and functions of the Office of Enterprise Risk Management (OERM). He outlined the organizational

structure of OERM which consists of four main divisions: Risk Management, Internal Controls and Audit Liaison, Anti-Fraud, and Internal Audit. He then presented some of the accomplishments of each group over the past year followed by a discussion of a maturity scale used to measure a typical risk management organization and the level that OERM had reached on this scale. He further provided a summary of key initiatives OERM intended to pursue in the next fiscal year.

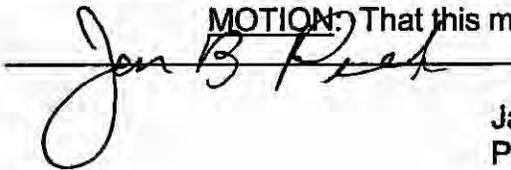
9. Executive Session

On a vote taken by the Chairman, the members closed the meeting for executive session at 11:32 a.m.

10. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 12:27 p.m.

MOTION: That this meeting be adjourned.



James B.
Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. August 2015 Performance Review –G, F, C, S, I, and L Funds
3. Auto Escalation
4. OCE Communication
5. FY 16 Budget Review and Approval
6. Audit Report
7. OERM Report