



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

77K Street, NE Washington, DC 20002

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

May 30, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 30, 2018, at 8:30 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 Oregon, member; Ronald D. McCray of Texas, member (telephonically present); David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Ravindra Deo, Executive Director; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer; Vijay Desai, Chief Technology Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Sean McCaffrey, Chief Investment Officer; Tee Ramos, Director, Office of Participant Services; Renée W. Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Officer to the Executive Director; Patrick Bevill, Chief Information Security Officer; Tanner Nohe, Supervisory Project Manager; Geof Nieboer, Business Intelligence Division Chief; and Stephen Huber, Enterprise Portfolio Management Chief. In attendance for ETAC were Chairman Clifford Dailing, National Rural Letter Carriers Association; Cathy Ball, National Treasury Employees Union; Ivan Butts, National Association of Postal Supervisors; Andrew Corso, Office of the Secretary of Defense; Holly Feldman-Wiencek, National Association of Letter Carriers; Jessica Klement, National Active and Retired Federal Employees Association; Bob Levi, United Postmasters and Managers of America; John Seal, Senior Executives Association; Jacqueline Simon, American Federation of Government Employees; Georgia Thomas, Federally Employed Women; and Todd Wells, Federal Managers Association.

1. Approval of the Minutes of the April 23, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the April 23, 2018 Board member meeting. The following motion was made, seconded, and adopted without objection:

**MOTION:** That the minutes of the Board member meeting held on April 23, 2018 be approved.

2. Approval of the Minutes of the November 8, 2017 Joint Board Member and ETAC Meeting.

Chairman Dailing entertained a motion for approval of the minutes of the November 8, 2017 joint meeting of the Board members and ETAC. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the joint meeting of the Board members and ETAC held on November 8, 2017 be approved.

3. Monthly Reports.

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

a. Participant Activity Report.

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" and "TSP Fund Statistics Highlight" (attached). He noted that the TSP participation rate among FERS employees rose to 90.7%, up from 83% when auto-enrollment began in 2010. This exceeds the target participation rate of 90%. Loan withdrawals increased 13% in April 2018.

Mr. Ramos reported continuing improvement in call center service. For the month of April, 83.7% of calls were answered within 20 seconds, and the call abandonment rate fell to 1.9%, outperforming the target abandonment rate of 2% or less. Further improvements were noted in the month of May, as of the morning of May 30: 98.5% of all calls were answered within 20 seconds, and call abandonment further declined to 0.4%.

Member Jasien inquired how the improvements in call center service were achieved, and whether measures were being taken to assure the quality of call service. Mr. Ramos replied that approximately 60 to 70 new call center employees were brought aboard to improve caller experience. Mr. Ramos further noted that quality control is being assured through careful monitoring of inexperienced call agents, and monthly quality control reviews which examine a sampling of calls for each call agent.

Upon review of withdrawal figures in the Thrift Savings Fund Statistics, Ms. Simon inquired whether, upon separation from federal service, participants were withdrawing all funds from the TSP at an increasing rate. Mr. Ramos responded that the overall rates are stable, with approximately 35-45% of participants withdrawing all funds within the first year of separation. Mr. Deo added that the withdrawal rate appeared higher in the 2018 statistics because they have not been seasonally adjusted; traditionally, more withdrawals are made during the first quarter of the calendar year than the rest of the year, thus creating an appearance of accelerating withdrawals in the first quarter of a calendar year. Mr. Deo further noted that the dollar amounts of withdrawals are increasing, but explained that this correlates to increasing average account sizes.

Member Bilyeu requested that charts illustrating monthly cash flow attributes be re-introduced to the monthly financial reports. Mr. Deo agreed to do so.

b. Investment Performance.

Mr. McCaffrey reviewed the monthly investment performance report. See "April 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey reported that for the month of April, performance for the F and C Funds was in line with the benchmark. Performance for the S Fund was ahead of the benchmark by 4 basis points, which is attributable to securities sampling and securities lending, while performance for the I Fund trailed the benchmark index by 26 basis points primarily due to a reversal of the fair value adjustment that occurred at the end of March.

Mr. McCaffrey noted that for the year to date, performance for the F Fund is ahead of benchmark by 3 basis points, primarily due to securities lending. Performance for the S Fund is also ahead of benchmark by 3 basis points, again primarily due to securities lending. The C Fund is in line with the benchmark, while the I Fund is ahead of benchmark by 21 basis points, primarily due to tax effect and fair value pricing.

Stock prices improved in April as enthusiasm for better than expected first quarter corporate earnings reports was balanced by concerns about future higher interest rates as the economy continues to grow. All three equity funds achieved gains. International markets did better, though returns were tempered some by the rising U.S. dollar. The F Fund experienced a loss caused by interest rates moving higher. All of the L Funds showed gains for the month.

For the month of May, through the close on Tuesday, May 29, U.S. equities were holding gains. The C Fund was ahead by 1.78% and the S Fund was better by 4.25%; however, the I Fund was down 2.94%. The F Fund had a small gain of 1.04%.

c. Legislative Report.

Ms. Weaver reported that Congress is considering legislation that will require Members of Congress to reimburse settlement funds in complaints of sexual harassment. Draft legislation passed by the House could allow a Member of Congress's TSP account funds to serve as a source for reimbursement.

Ms. Weaver also noted that the Office of Personnel Management sent draft legislative language to Congress that would make substantial changes to the retirement systems of federal employees. Ms. Klement inquired whether the proposed changes might impact the TSP. Ms. Weaver answered that it is unclear whether any changes would impact the TSP, while acknowledging it is possible that significant

changes to retirement systems could have an impact on the TSP. Ms. Weaver noted that FRTIB will carefully monitor changes to retirement systems.

#### 4. Quarterly Report

##### a. Metrics Report

Mr. Nieboer presented an overview of the Fiscal Year (FY) 2018 2nd Quarter Metrics Review. See "Metrics Review 2nd Quarter FY18" (attached). Mr. Nieboer noted that FRTIB was unable to meet a 2:00 p.m. deadline to place trades on two days. One of the delays was a consequence of major power outages due to a windstorm in March. Notwithstanding a delay beyond the 2:00 p.m. deadline, FRTIB trades were still placed for the day. Mr. Nieboer reiterated improvements to call processing previously noted by Mr. Ramos. Mr. Nieboer also noted that two audit report responses required time beyond the 30 day target, but that there were no systematic concerns over audit report response time.

Following Mr. Nieboer's report, Mr. Deo noted for ETAC that FRTIB aims to increase the auto-enrollment contribution level for new FERS participants from 3% to 5% effective October 1, 2019. Whether this increased automatic contribution rate will apply to new members of the uniformed services as well as new FERS employees will be a subject of further conversation. Mr. Deo observed that although approximately 70-80% of participants already contribute more than 5% of their salary to their TSP account, raising the auto-enrollment figure will make a significant difference for those who do not.

Member Jasien praised the plan, expressing his opinion that it is the right course of action for participants. Member Jasien expressed his hope that eventually, the TSP will also offer participants an option to automatically escalate their contributions.

Mr. Wells inquired whether increasing the automatic contribution levels might have the undesirable effect of reducing participation. Mr. Deo answered that a review of industry data suggests that a modest increase in automatic contribution rates is not likely to result in a significant drop in participation.

##### b. Project Update

Mr. Huber presented a project update. See "Key Activity Report 2nd Quarter FY18" (attached). The adaptive authentication case project is moving to close out and will transition to operations. The enterprise data strategy project is behind schedule due to delays in software procurement, but it is anticipated that over the next quarter, the project will come back in line with schedule. A physical move of some employees was completed over the weekend of May 19, in accord with the "Great Place to Work" portfolio. The electronic records management system is transition from the planning stage to the execution stage. FRTIB also completed a review of its participant and beneficiary forms to enhance the privacy of participants and beneficiaries.

### c. Technology Update

Vijay Desai presented the IT Update. See "IT Update" (attached). FRTIB completed mainframe remediation, and came in line with Defense Information Systems Agency guidelines. IBM will conduct an independent verification and validation to ensure these actions were successful.

Trusted Internet Connection services are scheduled to be in place by August or earlier. With respect to network access control, FRTIB has installed and activated twelve government furnished equipment switches at data centers, and switches should also be installed and activated at FRTIB headquarters by the end of the year.

FRTIB is currently reconfiguring a component in the archiving system which should be completed soon, but new long term solutions for data archiving are being researched.

With respect to active directory modernization, FRTIB has accepted a recommendation to create a new domain. FRTIB is also working to develop a new task order to "stand up" the new domain.

Mr. Desai further noted that FRTIB is undergoing wide area network circuit upgrades to improve bandwidth. Also, FRTIB is working on OPSTRAK and anti-fraud measures. And finally, FRTIB is upgrading computers and servers running on older operating systems.

### 5. Additional Withdrawals Project

Mr. Nohe presented on the additional withdrawals project. See "Additional Withdrawals Project" (attached). Currently, participants have the ability to take one partial withdrawal. Afterwards, they must take a full withdrawal.

With the changes proposed by the additional withdrawals projects, participants will be able to take one withdrawal every thirty days, and there will be no cap on how many withdrawals they may make. Furthermore, in-service participants over age 59 ½ will be able to take up to four withdrawals per year, provided that the withdrawals are at least thirty days apart.

The additional withdrawals project will also allow more flexibility in arranging installment payment withdrawals. Currently, participants may only make changes to an installment payment amount during an "open season" period, and they may only elect monthly installment plans. The additional withdrawals project proposes more options: participants will be able to choose monthly, quarterly, or yearly installment payments, and they will be able to change installment amounts and frequency at any time.

Mr. Nohe further noted that currently, participants may only stop installment payments by taking a full distribution. The additional withdrawals project's proposed changes will allow the flexibility to pause or resume installment payments at any time. In another change under the proposals of the additional withdrawals project, post-separation partial withdrawals will also be permitted for participants and beneficiaries already receiving installment payments (e.g., a participant who is already receiving monthly payments could also elect to take an additional withdrawal to cover an unexpected major expense).

Participants will still be obligated to take a required minimum distribution by age 70 ½. This is a requirement of the Internal Revenue Code. TSP plans to provide participants several notices before they reach age 70 ½ informing them of their distribution options.

Under the additional withdrawals project proposals, participants will be able to take distributions from Roth funds, traditional pretax funds, or a pro rata mix.

FRTIB intends to have the additional withdrawal project changes in place in September 2019, although the TSP Modernization Act allows FRTIB until November 2019 to enact changes.

## 6. Communications and Education Update

Mr. Courtney presented the communications and education update. See "Communications and Education Update" (attached). The Office of Communication and Education strives to educate participants and beneficiaries, as well as maintain connections with them. A variety of communications methods are deployed to this end: print and mail (to include notices and quarterly statements); liaison teams who travel across the country to provide in-person training and education sessions to participants and beneficiaries, employee groups, and employing agencies; social media; online educational videos; email; and interactive webinars that offer question and answer sessions for participants and beneficiaries.

The Office of Communication and Education has developed new educational materials specifically aimed at informing members of the uniformed services about the blended retirement system. Eighty pieces of communication were developed, posted online, and/or mailed to the 200,000 blended retirement systems participants. The Office of Communication and Education has provided educational classes to 350 military financial educators in order to reach blended retirement system participants and beneficiaries.

Following Mr. Courtney's presentation, Chairman Kennedy invited questions and comments from ETAC. Chairman Dailing commented that many employees would like the options for automated contribution increases and "autopilot" investments.

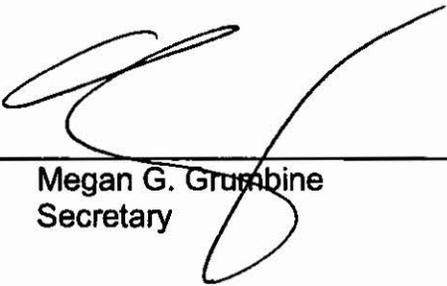
7. Adjourn

On a vote taken by Chairman Dailing, the ETAC adjourned at 9:52 a.m. On a vote taken by the Chairman, the members closed the meeting at 9:52 a.m. for executive session.

At 10:22 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 11:29 a.m.

MOTION: That this meeting be adjourned.



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Megan G. Grumbine  
Secretary

## Attachments

1. Thrift Savings Fund Statistics
2. TSP Fund Statistics Highlight
3. April 2018 Performance Review – G, F, C, S, I, and L Funds
4. Metrics Review 2nd Quarter FY18
5. Key Activity Report 2nd Quarter FY18
6. IT Update
7. Additional Withdrawals Project
8. Communications and Education Update