



## FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

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

August 24, 2020

David A. Jones, Acting Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on August 24, 2020, at 10:00 a.m., Eastern Time. The meeting was held telephonically and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, member; William S. Jasien of Virginia, member; Ravindra Deo, Executive Director; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; Kimberly A. Weaver, Director, External Affairs; Susan Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Tee Ramos, Director, Office of Participant Services; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Technology Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director. In attendance for the Employee Thrift Advisory Council (ETAC) were: Clifford Dailing, ETAC Chairman, National Rural Letter Carriers Association; Ivan Butts, National Association of Postal Supervisors; Kathy Hensley, National Active and Retired Federal Employees Association; Cathy Ball, National Treasury Employees Union; Renee Johnson, Federal Managers Association; James Sauber, National Association of Letter Carriers; John Seal, Senior Executives Association; Dave Stamey, National Federation of Federal Employees.

#### 1. Welcome and Introductions.

Acting Chairman Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency). Chairman Dailing subsequently called to order the Employee Thrift Advisory Council (ETAC) meeting. Chairman Jones welcomed everyone present to the joint FRTIB/ETAC meeting. The Board Members, ETAC Members, and members of the FRTIB leadership team introduced themselves.

#### 2. Approval of the Minutes of the July 27, 2020 Board Member Meeting.

Acting Chairman Jones entertained a motion for approval of the minutes of the July 27, 2020 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 July 27, 2020 be approved.

3. Approval of the Minutes of the October 29, 2019 ETAC Meeting.

Chairman Dailing entertained a motion for approval of the minutes of the October 29, 2019 ETAC meeting. The motion was made and adopted without objection by the ETAC.

4. 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 Highlights" (attached). Participation rates have leveled out after steady increases over the last several months, though they are two percentage points higher than last year.

Mr. Ramos reported that hardship withdrawals have also returned to normal levels; decreasing 26 percent this month from last month's levels. 18,000 participants took a CARES Act withdrawal in the past month and the relief offered by the CARES Act has been a topic of interest in participant phone calls.

b. Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "July 2020 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for June, BlackRock's performance for the F, C, S, and I Funds was in line with the Funds' respective indices. Mr. McCaffrey noted that U.S. equities achieved healthy gains as investor sentiment was bolstered by substantial improvement in employment and better-than-expected earnings reports, especially among the largest technology companies. The C and S Funds posted strong gains. The I Fund also rose, driven primarily by a weaker U.S. dollar. Lower interest rates contributed to a positive return for the F Fund. All of the L Funds finished higher.

For the F and C Funds, BlackRock's performance year-to-date was in line with the Funds' respective indices. It underperformed the Small- Mid-Cap Index year-to-date by 19 basis points, primarily due to securities sampling and futures mistracking. Its performance for the I Fund year-to-date exceeded the performance of the International Index by 33 basis points, primarily due to tax advantage.

Through August 21, 2020, the C Fund is ahead by 3.98 percent month to date. The S Fund is up 4.30 percent and the I Fund has gained 3.41 percent. In fixed income, the F Fund has fallen 54 basis points as some interest rates have moved a bit higher. The G Fund has earned 3 basis points month-to-date for August.

Mr. McCaffrey directed the Board's attention to the graphics on the presentation slide that indicated a couple of major milestones that are inflection points for the rate of growth in L Fund participation. First, in September 2015, the L Funds became the default investment option for new FERS participants. Second, from January through December 2018, the Blended Retirement System (BRS) enrollment window was open to eligible members of the uniformed services. At the same time, new recruits were auto-enrolled and were defaulting into the L Funds. Looking toward the right side of the graphic, there are now about 2.66 million participants, or 44 percent of participants overall, that hold at least one L Fund. The total count of participants at month end represents an increase of about 27,000 in July that was driven in part by new members of the Uniformed Services, the vast majority being placed in the L 2055, L 2060, and L 2065 Funds. Mr. McCaffrey noted that 26 percent of participants have 100 percent of their accounts in the L Funds. Mr. McCaffrey directed attention to the lower graphic that shows the participation in all of the L Funds individually both for the current reporting period and the prior reporting period so that the month over month changes can be observed. He pointed out that as of August 19, over 101,000 participants and 6.3 billion dollars are invested in the six new L Funds, including more than 34,000 new participants who have joined the TSP since July 1.

Mr. McCaffrey briefly commented on interfund transfers. Transfer volume as a percentage of assets was just slightly above the long run median. On a net basis, a number of participants were observed reallocating from U.S. equities into fixed income. However, these transfers represent a very small percentage of participant assets.

Member McCray asked about the percentage of participants holding at least one L Fund and how that figure compares to industry average for participation in target date funds. It appeared to Member McCray that our current figure was lower than industry average. Mr. McCaffrey said he did not have that comparison at this time but would be happy to research it and provide that information.

#### c. Legislative Report

Ms. Weaver reported that the United States House and Senate are both in recess until after Labor Day. Should either the House or Senate decide to vote on a new stimulus or postal bill, it would give members 24 hours' notice.

### 5. Quarterly Reports.

#### a. Metrics Report

Geof Nieboer, Business Intelligence Division Chief, presented an overview of the Fiscal Year (FY) 2020 Third Quarter Metrics Review. See "FY 2020 Third Quarter Key Performance Indicator Results" (attached). Mr. Nieboer noted that the F, C, S, and I Funds' investments metric was yellow for this quarter due to one trade being sent 48 minutes past the 2:00 p.m. deadline. This was due to a technical issue at the U.S.

Treasury which delayed reporting of the G Fund interest rate. Notwithstanding this delay, FRTIB trades were still placed for the day and executed on time.

Mr. Nieboer highlighted that in strategic goal D, the percentage of FERS participants making a 5 percent or greater contribution, fell short of the 80 percent target, but it has remained essentially stable over the year, despite the pandemic, and continues to be over 10 percent higher than industry average. Mr. Nieboer expects to see growth in this metric after implementation of the 5 percent default contribution rate on October 1, 2020.

Member McCray inquired about the previous quarter's status for the yellow items in goals C and D. Mr. Nieboer responded that in the previous quarter, the F, C, S, and I Funds' investments metric was red, due to the trade deadline being late three times. However, there was no correlation between those events and the event that occurred this quarter. As to the matching contribution metric, it has remained yellow for some time. Mr. Nieboer reiterated that the 5 percent default rate should improve this metric.

#### 6. Participant Survey Reports.

Ms. Wilder Guerin introduced her presentation by stating that the participant survey process is designed to ascertain TSP participant preferences and satisfaction. She noted at the outset that the coronavirus pandemic and resulting quarantine presented challenges to the survey process.

In response to a question from Member Jasien, Ms. Wilder Guerin provided some background information about the survey process. She noted that the survey was administered by Gallup, which stratified the sample of the 40,000 – 50,000 TSP participants who were sent the survey to obtain a representative sample of active participants in FERS and BRS. The survey participants were encouraged to respond by email, but some participants only received a paper survey. The survey was conducted during the March-April 2020 time frame.

Dennis McNulty of the Office of Enterprise Planning (OEP) began the presentation of the survey results by stating that this is the sixth survey since 2006 and the first since 2017. He highlighted two differences between the 2020 and 2017 surveys; namely, that CSRS participants were not surveyed in 2020 and the 2020 survey focused only on participant satisfaction. He noted that a separate participant survey about retirement wellness will be conducted later in fall 2020.

The overall response rate of the survey was about 14 percent, lower than the 17 percent response rate in 2017. Mr. McNulty hypothesized that the lower response rate was due to an extremely low 3 percent response rate amongst BRS participants. High return-to-sender occurrence, lack of valid e-mail addresses, and the relative youth of BRS participants were provided as possible reasons for the low response rate.

Total satisfaction rate was 87 percent in comparison to 89 percent from the previous survey. Mr. McNulty noted that the survey was taken during the early stages of the pandemic and that what FRTIB has found over the years is that financial conditions and TSP satisfaction levels are coordinated. In addition, by removing the CSRS population and introducing the BRS population, it might have removed more participants who traditionally have higher satisfaction ratings. Mr. McNulty highlighted that while the BRS population had the lowest percentage of those extremely satisfied, they also had the largest neutral rating percentage, which offers an opportunity for outreach and education.

Veronica Mance of the Office of Enterprise Planning continued the presentation by first mentioning that the satisfaction levels compared favorably to industry benchmarks: 76 percent for the industry in an April 2020 survey compared to FRTIB's 87 percent. Ms. Mance next moved to the net promoter score which measures how likely the respondent was to recommend the TSP to a friend or colleague. The Plan's score compared favorably to the score for the financial services industry as a whole.

Mr. McNulty continued next by comparing plan satisfaction and participant contributions, which showed that those who contributed more than 5 percent are the most satisfied with the TSP. The FERS population's self-reported participation rate has increased since 2017 to 93 percent. Ms. Mance noted that this compares favorably to the industry's average 401(k) participation rate of 84 percent. Mr. McNulty next moved to why participants were not contributing at least 5 percent, with affordability and inertia being the two leading reasons. Ms. Mance noted that because inertia is given as a reason for not contributing at least 5 percent, we may see fewer opt-outs when the default contribution rate is increased in October. The number of participants accepting the TSP's current default deferral rate is in line with a 2019 plan sponsor defined contribution benchmark survey.

Participant satisfaction with the time to complete roll-in transactions remained overall on par with 2017, although there was a decline in those extremely satisfied. Ms. Mance said that this was not surprising given that this is a prevalent issue throughout the defined contribution industry. It is FRTIB's hope that this will improve with the transition to the new RKSA vendor. Participants were 4 percent more satisfied with the withdrawal options over 2017, however, only 39 percent were familiar with the new withdrawal options. This will be an area to increase education.

Mr. McNulty next provided the results for questions relating to communications. Participants identified their top three sources of information as the annual statements, My Account, and the plan information on tsp.gov. These are in line with 2017. Overall, participants preferred the TSP communicate with them via the website, email, and paper statements. Younger participants specifically highlighted preference for email and mobile applications when compared to older participants.

Mr. McNulty moved on to the survey's questions about the reasons for participant withdrawals and transfers. 28 percent of participants indicated that they planned to start withdrawals immediately after retirement, generally for the intended purpose of using retirement funds to pay living expenses. 24 percent planned to invest the money elsewhere while 16 percent planned to transfer money out of the TSP to another account/IRA. Consolidation of retirement accounts and more investment choices were the top reasons for moving funds out of the TSP after retirement. Mr. McNulty also noted that the more enhanced withdrawal options may be having some impact on retention.

Mr. McNulty next addressed what participants most want TSP to offer. A consolidated report of federal benefits topped the list, followed by a mobile app and additional retirement planning tools.

Member McCray asked why 40 percent of respondents cited lower fees as a reason why they planned to transfer money out from the TSP account when it is unlikely they will find lower fee opportunities than the TSP. Ms. Wilder Guerin answered that they have consistently found participants believe that there are options available in the marketplace cheaper than the TSP. Mr. Deo concurred, offering that there have been studies showing that individuals believe mutual funds do not have fees since they are more hidden in the prospectuses, whereas TSP discloses its fees very prominently. Mr. Deo agrees that this is a continual educational opportunity.

Turning back to the presentation, Mr. McNulty provided the responses to a question that asked participants to suggest one thing TSP could do better in meeting their needs. Better instruction and information, providing investment advice, as well as more investment options were top categories; all in line with 2017. Participants requested easier website access, most likely due to the introduction of two factor authentication. However as TSP security rated higher overall than in 2017, it appears participants may be comfortable with this tradeoff.

Mr. McNulty and Ms. Mance concluded the presentation by offering a few recommendations FRTIB could glean from the survey. First, in order to improve our access to BRS participants, it is recommended that email be added as one of the data elements that Services submit when a new account is established. Second, FRTIB should conduct targeted focus groups with the two groups that had lower overall satisfaction with the TSP: BRS and Uniformed Services Legacy. Third, there should be a continued push to provide better and more information, as this was a clearly identified desire by all participants. Fourth, while an increase in the default deferral rate should improve the number of participants saving at least 5 percent, there should be continued outreach focused on the importance and benefits of saving 5 percent. Fifth, there is evidence that younger participants want a mobile app, and FRTIB should examine the feasibility providing one. Sixth, the feasibility of allowing withdrawals in specific funds should be examined as well as continuing to educate participants on the current in-service withdrawal limits. Finally, FRTIB should examine ways of collaborating with Social Security, OPM, and DFAS in order to provide consolidated federal retirement

benefits information, and should consider developing more individually-tailored tools and calculators. Mr. Deo stated that FRTIB is well on its way in implementing many of these suggestions through the RKSA procurement that is close to being awarded.

In response to Member McCray's question about participants providing feedback outside of the survey, Ms. Wilder Guerin noted that participants can provide continual input through the TSP website and to participant services representatives, who collect feedback on the ThriftLine.

In response to Members McCray and Jasien's inquiry as to the feasibility of Board members participating in the TSP, Ms. Grumbine indicated that this was looked at several years ago and there were some legal obstacles to Board members being TSP participants but she would be happy to review the opinion. Mr. McCray indicated that full participation may not be the answer but he seeks a way for Board members to have better visibility into the plan.

Member Jasien was pleased to hear that there would be a continued focus on capturing emails in order to improve communications. He charged FRTIB to take the written comments to heart as those are usually the most powerful. Member Jasien finished by asking if the survey asked if participants felt retirement ready. Ms. Wilder Guerin said that would be addressed in a follow up survey in the next few months.

In response to Member Bilyeu's question as to whether FRTIB has explored working with Social Security and others to put together a joint statement, Ms. Wilder Guerin indicated that dialogue between FRTIB and Social Security occurred 8 to 9 years ago and at that time there was not an interest in partnering to provide a combined statement. FRTIB plans to work with the RKSA vendor to provide a statement including not just Social Security but also reflecting an OPM annuity, either as an estimate or with the actual figures.

Acting Chairman Jones reiterated his appreciation and asked ETAC Chairman Dailing if he or his members had any questions. ETAC Chairman Dailing again reiterated the need for increased communications, especially as it related to the costs of transferring out of the TSP rather than staying in. Mr. Sauber asked if FRTIB could rebut the belief of those who take their money out because they think the fees are lower elsewhere by providing agencies with printed materials about this exact topic. Mr. Courtney answered this by stating that FRTIB does have an online scorecard as well as a printed version but will look to increase awareness of those items. He added that FRTIB also offers pre-separation classes that talk to the low administrative fees. Mr. Sauber asked if these classes and communications have contributed to a decline in the number or percentage of participants withdrawing their money. Ms. Wilder Guerin answered that individuals are taking advantage of the new withdrawal options but since that was just introduced in September, it's too early to draw any conclusions at this time.

Ms. Wilder Guerin concluded by saying it is the FRTIB's intention to conduct a satisfaction survey annually going forward.

7. Office of Communications and Education Annual Report.

Mr. Courtney began his presentation by providing both the Board and ETAC an overview of the Office of Communications and Education (OCE) and its four functional areas. Mr. Courtney demonstrated how his office has continued its mission in light of the pandemic, trading live, in-person for fully electronic training. This has resulted in more individuals being trained online year-to-date than in all of 2019. In addition, forms processing and ThriftLine operations have continued normally. Mr. Courtney highlighted the special COVID-19 portal which provides information on the changes that were made to accommodate physical distancing guidelines as well as pertinent CARES Act information. In addition to COVID-19 and CARES Act information, Mr. Courtney described the outreach efforts for the new 5-Year L Funds, 5 percent automatic enrollment, and the end of separate catch-up contribution elections for participants age 50 and older.

Donald Ferracci of OCE presented the redesign of the website. Mr. Ferracci mentioned that it had been 10 years since the last redesign and the previous website was not mobile device friendly. Mr. Ferracci noted that the redesign process included interviews and direct observations of participants interacting with the former website. Mr. Ferracci noted the feedback tool on the bottom of every page that allows participants to suggest improvements which will be incorporated in future updates.

Mr. Ferracci highlighted the funds pages, showing how fund information that used to be spread across two pages is now easily displayed on one. In addition, users now can obtain definitions for terms they do not understand with the built-in, in-line glossary.

After the website presentation concluded, Mr. Deo provided the ETAC with a brief explanation of what RKSA was since it was mentioned several times but never fully explained. Mr. Deo also mentioned that the upgrade of the Agency's mainframe computers over the past weekend should provide faster and quicker response times.

ETAC Chairman Dailing concluded by thanking FRTIB for all the information provided and FRTIB's continued commitment to the interest of the participants. ETAC Chairman Dailing then adjourned the ETAC meeting after hearing no objection to the motion.

8. Adjourn

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Acting Chairman Jones adjourned the meeting at 11:42 a.m.

MOTION: That this meeting be adjourned.

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Megan G. Grumbine  
Secretary

Attachments

1. a. Thrift Savings Fund Statistics, July 2020  
b. TSP Fund Statistics Highlights
2. July 2020 Performance Review – G, F, C, S, I, and L Funds
3. FY 2020 Third Quarter Key Performance Indicator Results
4. 2020 Participant Satisfaction Survey
5. Office of Communications and Education Annual Report