



## FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

### MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 24, 2020

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 24, 2020, 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; Ronald D. McCray of Texas, member (by telephone); David A. Jones of Connecticut, member (by telephone); 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; David Heimann, Deputy Chief Technology Officer; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the January 27, 2020 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the January 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 January 27, 2020 be approved.

2. 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" (attached). Mr. Ramos began by noting that the BRS participation count, which was added to the activity report during BRS activity, has been replaced by plan participation. He highlighted that both the FERS participation rate and the uniformed services participation rate made small increases in January to 92.4 percent and 69.5 percent, respectively.

Mr. Ramos noted that Plan withdrawals continue to fluctuate. Partial withdrawals increased 64 percent from last month and hardship withdrawals experienced a 17 percent increase. Loan requests remained level. Roll-ins reached

record highs for the second straight month—more than 4,000 requests totaling 160.5 million dollars were processed.

#### b. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See “January 2020 Performance Review – G, F, C, S, I, and L Funds” (attached). Mr. McCaffrey noted that for the month of January, performance for the F and C Funds was in line with indices. Performance for the S Fund was behind the benchmark by six basis points, as a result of futures mistracking and securities sampling. Performance for the I Fund was behind the benchmark by 64 basis points, primarily due to a fair value pricing event on the last trading day of January.

Mr. McCaffrey noted that continued strength in the labor market and the signing of a “phase one” trade agreement inspired optimism in the first weeks of the new year. However, late in the month, fears that the outbreak of a new virus would stifle economic activity helped erase gains in the equity markets. The Plan’s stock funds posted losses as a result and a stronger dollar magnified the I Fund’s decrease. On the fixed income side, meaningfully lower interest rates helped push the F Fund higher. The L Income Fund climbed very slightly, but the other L Funds finished lower.

For the month of February through Friday’s close, the C, S, I, and F Funds are up by 3.62 percent, 4.75 percent, 1.22 percent, and 0.54 percent, respectively.

Mr. McCaffrey provided an update on the multi-asset manager award process wherein the Agency is working to hire two investment managers per Fund. He highlighted that the Agency has completed the procurement process for one of the two asset managers and has hired BlackRock Institutional Trust Company. He noted that work continues with regard to hiring a second manager.

In response to a question from Chairman Kennedy, Mr. McCaffrey noted that Lilian Wan, the Plan’s primary coverage person from BlackRock since 2008, has announced her departure from BlackRock. BlackRock has appointed two new individuals, Kim Klenk Howells and Katie Nedl, to the Agency’s team. In response to questions from Chairman Kennedy and Member Jasien, Mr. McCaffrey reaffirmed his confidence in BlackRock’s ability to effectively serve the Plan and deliver on previously made commitments.

#### c. Legislative Report

Ms. Weaver noted that the President’s budget was released two weeks ago and indicated that she would discuss that, among other things, during her annual office report later in the meeting. In response to a question from Member Jasien, Ms. Weaver stated that she has continued to have various meetings regarding the I Fund legislative proposals and that neither bill has added significant numbers of co-sponsors.

### 3. Quarterly Metrics Report.

Mr. Geof Nieboer, Chief of Business Intelligence in the Office of Enterprise Planning, provided an overview of the Agency's performance metrics for the 1st quarter of FY 2020. See "Performance Measurement Report: 1st Quarter Fiscal Year 2020" (attached). Mr. Nieboer noted that the best places to work ranking and employee engagement index, both annual metrics, showed an improvement from the prior year but did not reach the desired threshold.

Mr. Nieboer further noted that the external audit findings closure rate met the minimum required performance level but missed the target by two findings. He indicated, however, that a significant number of closure actions remain in the pipeline and the Agency did not see any systemic concerns in its analysis.

Mr. Nieboer indicated that the FERS full matching contribution rate fell short of the desired target but noted that the results are incrementally higher than the same period last year and remain over 10 percent higher than the industry average. Finally, Mr. Nieboer highlighted that the FERS participation rate metric, which historically has shown a small decrease due to participants ceasing contributions after hitting the IRS contribution limits, actually increased by 0.39 percent from the previous quarter. He attributed this to the fact that participants who take hardship withdrawals are no longer subject to a six-month contribution suspension.

### 4. Office of Executive Affairs Annual Report.

Ms. Weaver presented the Office External Affairs (OEA) Annual Review. See "Office of External Affairs Annual Review" (attached). Ms. Weaver stated that OEA handles external communication to Congress, the Employee Thrift Advisory Committee (ETAC), the media, and other federal agencies (most notably, the Government Accountability Office (GAO) and the Office of Management and Budget). The staff includes the director, Ms. Weaver, and a congressional inquiries analyst.

Ms. Weaver reported on the Congressional Oversight Committee changes, noting that nothing has changed on the Senate side from last year. The Senate Committee on Homeland Security and Governmental Affairs has been chaired by Ron Johnson, and the ranking member is Gary Peters. The subcommittee is the Regulatory Affairs and Federal Management Committee, which James Lankford chairs, and the ranking member is Kyrsten Sinema. On the House side, Ms. Weaver indicated that there have been some changes. The House Committee on Oversight and Reform is now chaired by Carolyn Maloney, who replaced Elijah Cummings after his death. The current ranking member is Jim Jordan; however, he will be transferring to the House Judiciary Committee on March 12, 2020 and will be replaced by Mark Meadows. Mark Meadows, who currently is the ranking member for the Subcommittee on Government Operations chaired by Gerry Connolly, will be replaced after his transfer.

Ms. Weaver highlighted that the Agency is both proactive and reactive with respect to legislation, noting that the last piece of legislation the Agency proactively sought related to additional withdrawals, which was implemented in September 2019. She indicated that there are three main categories of legislation the Agency reacts to as it is introduced. First, there are approximately 10 bills limiting the ability of Members of Congress to participate in the FERS defined benefit. One such bill, which passed the Senate in December, would allow a Member to opt out of the FERS defined benefit but continue to participate in the TSP. Ms. Weaver indicated that she does not think this bill will move in the House in 2020.

Second, there are five bills providing TSP participants assistance during a lapse in appropriations. These were introduced in 2019 in response to the prolonged government shutdown but have not passed despite the enthusiasm for them. Ms. Weaver noted that the work done by the Agency to allow certain participants to take out a TSP loan during a prolonged shutdown addressed some of the concern.

Finally, there are four bills that propose adding or limiting TSP Funds. Three bills address the I Fund and one would add a fossil fuel fund to the TSP. Ms. Weaver noted that there has been no appreciable activity on these.

Ms. Weaver discussed the other types of legislation OEA tracks, including bills that affect all agencies, such as Freedom of Information Act (FOIA) changes or parental leave, and bills that set broad policy, such as the SECURE Act or privacy legislation. In particular, the Agency will monitor forthcoming guidance on the SECURE Act provisions regarding monthly income statements (which do not apply to the TSP directly) to determine whether changes to TSP statements should be made.

Ms. Weaver further reported the President's budget proposal was released two weeks prior. The six most notable items that affect federal employees and their retirement are: (1) the reduction of the statutory G Fund interest rate, which has been proposed before, and opposed by the Agency; (2) an increase in employee contributions to the FERS annuity; (3) the elimination of the cost-of-living adjustment for current and future FERS participants; (4) a move from High-3 to High-5 for the annuity calculation; (5) the elimination of the FERS Special Retirement Supplement; and (4) modifications to the government contributions to FEHB premiums. In response to a question from Chairman Kennedy, Ms. Weaver indicated that, in her view, the chance of any of these moving forward is unlikely because of the split in the Houses.

Ms. Weaver noted that OEA is responsible for the ETAC relationship. ETAC consists of 16 Federal, Postal, and uniformed services representatives and advises the Board and the Executive Director on investment policy and the operation of the TSP. In addition, ETAC provides suggestions to the Agency based on feedback from their membership and the Agency proactively shares information on upcoming changes with ETAC. Chairman Kennedy indicated his desire for ETAC to meet with the Executive Director and Chairman of the Board more than once per year and Ms. Weaver indicated that she would arrange this.

Ms. Weaver also noted that she is responsible for interfacing with the media. She is the contact for media at the monthly Board meetings, appears regularly on Government Matters discussing the monthly Board meeting, does occasional radio interviews, responds to inquiries from the press on a wide variety of issues, and issues press releases as needed.

Ms. Weaver concluded her report by stating that the Agency analyzes legislative proposals in terms of whether they are in the sole interest of the participants and beneficiaries.

5. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, presented an internal audit update. See “Internal Audit Update” (attached). Ms. Holmes reported on the 2019 internal audits, highlighting that the OMNI Audit Report was issued. She noted that the 2019 OMNI audit was conducted due to the number of non-concurs from the 2018 OMNI audit. The objective and scope were identical to the 2018 audit and yielded one finding. Ms. Holmes indicated that the Agency expects to remediate this finding by August 2020.

6. Federal Information Security Modernization Act (FISMA) Performance Audit.

Ms. Holmes introduced Tony Wang and Edwen Delcid from Williams Adley, the auditors who assisted with the FISMA audit for Fiscal Year 2019. See “Williams Adley Federal Retirement Thrift Investment Board Presentation” (attached). Mr. Delcid began by thanking the Board for the opportunity to present its results and the Agency’s management team for a very successful year. He started his presentation by giving a general overview of the Fiscal Year 2019 audit. Mr. Delcid explained that the overall objective was to determine the effectiveness of the Agency’s information security program. A secondary objective was to look at improvements that were made within the Agency’s information security program to address prior recommendations. The testing examined both Agency-level and system specific controls. The audit period covered October 1, 2018 through September 30, 2019.

Williams Adley used two tools to measure the effectiveness of the Agency’s information security program: the Inspector General (IG) metrics and the IG Maturity Model. Mr. Delcid noted that, in order to move from one level to another in each domain, the Agency would need to address the majority of the requirements of the previous level. In order for an information security program to be considered “effective,” each of the eight domains must be at a level 4.

Mr. Delcid indicated that, based on the audit findings, the Agency has not fully developed and implemented an effective, organization-wide information security program due to reoccurring or unresolved issues. However, he highlighted that the

Agency made marked improvements to its information security program through the development of strategic and governing documents across the various domains, as well as implementation of control activities that were defined or developed in the previous year. As a result of these actions, the Agency moved from Level 1 (Ad-Hoc) to Level 2 (Defined) in three domains, from Level 2 (Defined) to Level 3 (Consistently Implemented) in three domains, and from Level 1 to Level 3 in one domain.

Williams Adley presented two new recommendations. First, they recommended that the Agency follow documented A&A policies and procedures to support consistent, informed, and timely authorization decisions and ensure security and privacy requirements/controls are implemented to support its enterprise and information security architectures. Second, they recommended that the Agency establish metrics and performance measures to evaluate the effectiveness of information security policies, procedures, and processes to collect data, analyze results, and develop corrective actions.

Mr. Patrick Bevill, Chief Information Security Officer, presented the Agency's response to the Williams Adley FISMA audit report. See "FRTIB CISO Board Briefing" (attached). He began by stating that the Agency accepts the Williams Adley recommendations. By embracing these recommendations, Mr. Bevill noted that the Agency's goal for Fiscal Year 2020 is to be at Level 3 in all eight domains, with the potential for two or three reaching Level 4 (Managed and Measurable). In response to a questions from Member Jasien, Mr. Bevill indicated reaching the Agency's long-term goal of Level 4 in all domains by the end of 2021 is not an unrealistic expectation; however, he indicated that it is difficult to predict with certainty until we see exactly what happens in 2020. He also responded that, for domains in which it makes sense, the Agency will strive to achieve a Level 5 (Optimized).

7. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:47 a.m. for executive session.

At 11:33 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 11:33 a.m.

MOTION: That this meeting be adjourned.

---

Megan G. Grumbine  
Secretary

## Attachments

1. Thrift Savings Fund Statistics
2. January 2020 Performance Review – G, F, C, S, I, and L Funds
3. Performance Measurement Report: 1st Quarter Fiscal Year 2020
4. Office of External Affairs Annual Review
5. Internal Audit Update
6. Williams Adley Federal Retirement Thrift Investment Board Presentation
7. FRTIB CISO Board Briefing