



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 27, 2020

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 27, 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 (by telephone), member; Ronald D. McCray of Texas (by telephone), member; 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; 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.

1. Approval of the Minutes of the December 16, 2019 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the December 16, 2019 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 December 16, 2019 be approved.

2. Monthly Reports.

a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos noted a historic high number of roll-in transactions totaling nearly 35,000, representing a cash inflow of 143 million dollars. FRTIB contact centers met service level goals for every month of 2019, in large part due to enhancements made in anticipation of an increased participant population. Mr. Ramos reported that participants are adapting well to two-factor authentication with over 2.9 million participants with authenticated accounts. Two-factor authentication log-ins climbed from approximately 350,000 in early October, to 1.8 million, representing approximately 550,000 unique participants. Mr. Ramos noted that OPS is tracking two-factor authentication problems and working on solutions. A Frequently Asked Questions resource is available to participants and comments related to two-factor

authentication are monitored. Feedback is driving potential adjustments, including extending the time the unique code is viable, saving login information in web browsers, and using the unique code to authenticate during ThriftLine calls.

Chairman Kennedy asked Mr. Ramos if the implementation of two-factor authentication met expectations in terms of participation and difficulties. Mr. Ramos replied that expectations were met and noted that participation in TSP two-factor authentication is slightly higher than the industry norm of less than 20 percent, in part due to outreach efforts. Mr. Deo noted that 1.8 million successful two-factor logins occurred in one week, highlighting the success of the project. Member Jasien noted the historically high roll-in statistics and asked if there was an explanation for the increase. Mr. Ramos opined that the increase was a steady climb over time resulting from outreach efforts and trainings. Mr. Ramos noted that OPS is developing a concierge service to make roll-ins easier for participants. In response to another question from Member Jasien, Mr. Ramos opined that hardship withdrawals increased in 2019 due to the government shutdown and furloughs, as well as weather-related events throughout the year.

b. Legislative Report

Ms. Weaver indicated that the SECURE Act was passed in late December 2019 and became effective on January 1, 2020. Mr. Ramos organized a team to start implementing SECURE Act mandates. The team will initially focus on the age change for required minimum disbursements, which increased from age 70-and-a-half to age 72. In response to a question from Member Jasien regarding additional impacts, Ms. Grumbine noted that another change that may impact the TSP relates to withdrawal of funds for the birth or adoption of a child.

3. Quarterly Reports.

a. Investment Report

Mr. McCaffrey reviewed the monthly investment performance report. See "December 2019 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey reported that BlackRock's performance for the F, C, S, and I Funds was in line with each funds' respective indices for the month of December. For calendar year 2019, BlackRock's performance for the F and C Funds was in line with each funds' respective indices. BlackRock outperformed the Small Mid Cap Index by seven basis points in 2019, primarily due to securities sampling. BlackRock's year to date performance for the I Fund was 48 basis points ahead of the benchmark, primarily attributable to tax effect.

For the month of December, Mr. McCaffrey noted U.S. stocks were boosted to new highs amid unexpectedly robust employment growth and indication of progress in trade negotiations. The C and S Funds posted gains. The I Fund achieved even stronger growth due in part to the weaker dollar. Longer term interest rates rose,

contributing to a small loss in the F Fund, while all the L Funds held gains. Mr. McCaffrey reported that the equity funds had a strong year and positive returns for December. Similarly, the F Fund had strong yearly gains due in part to lower interest rates across the maturity spectrum. Global stock markets were ahead month-to-date through Friday, January 24. The C Fund was ahead by 2.1 percent, the S Fund was up 1.54 percent, the I Fund gained 0.42 percent, and the F Fund was up 1.29 percent.

For the month of December, Mr. McCaffrey reported a net inter-fund transfer outflow from the G Fund to the equity funds and the L Funds, most likely influenced by the favorable equity market tone of recent months. The number of participants with at least one L Fund amongst their holdings crested 2.5 million as of the end of 2019. An audit of BlackRock's proxy voting found no exceptions to established guidelines during the third quarter of 2019. Mr. McCaffrey reported 64 class action settlement claims open at the start of the third quarter of 2019. Eight claims were opened during the fourth quarter. In the S Fund, one claim was closed due to administrator action. Two claims were settled for a total of approximately 1.5 million dollars. At the end of the fourth quarter, 69 claims remained open.

Member Jones asked about the implementation of the new L Funds and Mr. McCaffrey indicated the TSP will add L funds for 2025, 2035, 2045, 2055, 2060, and 2065, on July 1, 2020.

Chairman Kennedy entertained a motion to reaffirm current F, C, S, and I Fund investment policies. The Board members made, seconded, and adopted the following recommendation by unanimous vote:

MOTION: That the Board reaffirm the current F, C, S, and I Fund investment policies without change.

b. Audit Status

Mr. Brack Boone, Audit Management Division Chief, provided a status update on open audit findings. See "Audit Status" (attached). Mr. Boone reported 12 audits are planned for FY 2020. Mr. Boone noted the annual FISMA audit for 2019 was complete. Three external FY 2020 audits were in progress: Computer Access; Status of Prior Year Recommendations for 2020; and Annual Financial Statement. The Annuity Operations and Mainframe external audits are expected to begin in February. Mr. Boone noted that several new initiatives with KPMG have improved audit planning. There are now preplanning meetings prior to the start of an audit and weekly meetings to identify any potential observations early in the audit process with robust conversations. Mr. Boone opined that all the improvements to the audit process will help keep audits on schedule and reduce the number of non-concurs.

Mr. Deo reviewed projected audit closures for FY 2020. Mr. Deo reported 16 projected audit closures for the first quarter and 16 actual audit closures for the first quarter. The goal for FY 2020 is at least 125 audit closures. Seven audit

findings were added as a result of the completed FISMA audit. Mr. Deo proceeded to discuss the risk-based approach used to handle audit findings, noting that if there is a technical vulnerability, the vulnerability is remediated prior to developing a corrective action plan. After the vulnerability is remediated, a corrective action plan is developed to fix the underlying cause of the vulnerability and before formally closing the audit finding.

c. Budget Review

Ms. Crowder provided the quarterly budget review. See "FY 2020 First Quarter Budget Review" (attached). Ms. Crowder reported first quarter budget execution at 58 percent, in alignment with the spend plan. The first quarter execution represents approximately 140.9 million dollars, or 36.5 percent execution of the overall budget of approximately 385.6 million dollars. Ms. Crowder reported that 106.1 million dollars, representing 75 percent of the 140.9 million dollars, was used to support record-keeping operations and maintenance.

4. Annual Expense Ratio Review.

Ms. Crowder presented the annual review of administrative expenses. See "FY 2019 Annual Review of Administrative Expenses" (attached). Ms. Crowder reported average net assets increased 33 billion dollars to a total of 589 billion dollars, representing roughly a six percent increase from the prior year. Administrative expenses increased in alignment with budget requests to support the growing participant population, enhance cybersecurity, and address audit remediation. Gross administrative expenses increased to 309 million dollars and were offset by forfeitures of 46 million dollars, which is a 2 million dollar decrease in forfeitures from the previous year. Loan fees stayed flat at 14 million dollars, making the net administrative expenses 249 million dollars.

Ms. Crowder reported the gross administrative expense ratio as 5.2 basis points, which was flat from the prior year. The net administrative expense ratio was 4.2 basis points, or approximately 42 cents charged to participants for every one thousand dollars. Ms. Crowder reported the positive and negative cash flow continued to increase. However, there was a slight uptick in withdrawals that outpaced contributions and decreased the positive net cash flow by 451 million dollars. Ms. Crowder noted that the TSP ended the year with a positive net cash flow of 7.9 billion dollars.

Member Jones asked for a projection of forfeitures for the coming years given the impact on administrative expenses and the fairly consistent dollar value of forfeitures year over year. Ms. Crowder noted it was difficult to accurately forecast forfeitures, but opined forfeitures would likely decrease as the Civil Service Retirement System (CSRS) population retires due to early CSRS misclassifications and committed to attempting a projection forfeitures in coordination with the Office of Enterprise Planning. Member Jasien requested a percentage of budget growth and the actual

budget related to the increased participant base, cybersecurity, and audits. Ms. Crowder committed to prepare that material for Member Jasien's review at a later date.

5. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, presented an internal audit update. See "Internal Audit Update," "CY 2020/2021 Internal Audit Plan," and "Internal Audit Charter" (attached). The presentation covered internal audit activities of the draft 2020/2021 Internal Audit Plan, the status of 2019 internal audits, and the status of independent verification and validation phase two (IV & V2) work. Ms. Holmes began with an overview of the reporting structure for the internal audit function. The Chief Audit Executive reports directly to the Executive Director and the Board, which is reflected in the updated Internal Audit Charter. Ms. Holmes proposed a two-year audit plan to provide greater flexibility where a special project or an area of high risk emerges during the course of the year.

Internal audit findings will now be rated according to risk, in an abbreviated version of the Office of Enterprise Risk Management's five-point rating method. For calendar year 2021, Ms. Holmes conducted a risk assessment and developed the two-year plan. The plan was socialized with executive leadership and reviewed against external audit plans. The five proposed audits for 2020 are: (1) on-boarding and off-boarding of contractors; (2) budget process; (3) government purchase card; (4) special processing unit element; and (5) annual FISMA audit. Ms. Holmes noted that upon approval of the internal audit plan, the budget process audit would begin. The five proposed audits for 2021 are: (1) contract process and contract management; (2) insider threat; (3) travel card (if previous findings are not remediated); (4) compliance program; and (5) annual FISMA audit. Ms. Holmes noted the plan can be adjusted as needed with approval from the Board and senior management.

Ms. Holmes reported on the 2019 internal audits, beginning with the fixed assets audit. The purpose of the fixed assets audit was to determine whether FRTIB property management internal controls were operating effectively and in compliance with agency policies and procedures. The audit was conducted between July 1, 2018, and June 30, 2019, and yielded four findings primarily related to a lack of guidance in procedures. All fixed assets audit findings have completion dates in the second quarter of the current fiscal year. 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 with which management concurred.

Ms. Holmes reported on the IV & V2 status, which commenced to phase two in early October with an inventory of 14 audit findings to review. OERM reviewed the initial submission of the remediation packages from the program office and worked collaboratively with offices to ensure completeness prior to submission. All 14 packages were reviewed and closure memos were issued. The next iteration of IV&V will focus on 10 to 15 high rated audit findings, with an anticipated start date of the second or third quarter of FY2020. Member Jasien requested a timeframe for EBSA's

review of the 14 packages. Ms. Holmes noted that EBSA's audit is independent and the packages can be leveraged, but that determination and any associated timeline is ultimately up to EBSA. Member Jones requested a timeline for the third phase of IV & V work and Ms. Holmes replied the inventory of the 10 to 15 high findings will need to be completed prior to selecting a kick off date.

The Board members made, seconded, and adopted the following motions by unanimous vote:

MOTION: That the Board approve the Internal Audit Charter.

MOTION: That the Board approve the CY 2020/2021 Internal Audit Plan.

6. Participant Outreach.

After an introduction from Mr. Courtney, Ms. Elizabeth Perry, Social Scientist, provided a presentation on outreach efforts utilizing social science. See "Social Science Outreach" (attached). Ms. Perry detailed a participant outreach effort related to catch-up contributions. The outreach focused on active participants who contributed over 18,000 dollars in 2018 and were turning 50 years of age during 2019. The goal was to get participants to start making catch-up contributions. Ms. Perry discussed the social science used to craft the emails sent as a part of the outreach campaign. As a result of the research, Ms. Perry reported that if a participant received an email or call as a part of the outreach, that participant was three times more likely to be making catch-up contributions, which resulted in 300,000 dollars in catch-up contributions. A survey question was included for participants contacted by phone and indicated 90 percent of those called found the call helpful.

In response to a question from Member Jasien about who made the calls, Ms. Perry explained that participant service representatives at FRTIB call centers made the calls during downtime. Ms. Perry responded to a question from Member McCray about expectations by stating that the normal response for outreach emails of a similar kind is two to six percent. The catch-up outreach emails drove 15.8 percent to begin catch-up contributions on the first email campaign and 16.9 percent in the second email campaign. Based on the comparison to industry statistics, OCE was pleased with the effort.

Ms. Perry detailed a previous outreach campaign regarding over-contributing participants who would likely reach their elective deferral limit before the end of the year and therefore lose matching contributions as a consequence. Three different versions of an email were sent out to participants on track to reach the elective deferral limit by early November in 2018. The first group received a personalized email that stated how much money they would lose by hitting the elective deferral limit before the end of the year. The second group received an email detailing what other participants in a similar position missed out on the previous year on average. The third group received a general education email that explained the elective deferral limit. The

first two emails, which utilized social science techniques, were 29 to 36 percent more effective than the general education email. Overall, the outreach prevented the recipients from missing out on 400,000 dollars of matching contributions. The email campaign was repeated in 2019 and, again, approximately a third received full matching contributions for the year. Ms. Perry explained that if that line is maintained until age 65 based on median ages that would mean approximately 65 to 70 thousand more dollars in a participant's account due to an email campaign.

Another OCE outreach effort targeted active FERS participants who automatically enrolled before 2017 and still only contribute 3 percent. The goal was to increase the contribution amount for those participants to maximize the matching contribution. Two versions of an email were sent, both were identical except for one line of text. The first group received an email with a personalized estimate of how much they missed in matching contributions. The second group received an estimate of what other people missed out on in matching contributions on average. Participants who received the email were two and half times more likely to increase their contributions. The median increase for both groups was about 140 dollars per month. The effort was scaled up to reach another 75,000 participants via email or postcard and resulted in between 16 and 19 percent of recipients adjusting their contribution amount.

The final outreach effort discussed by Ms. Perry involved non-contributing participants. The group included active FERS employees who were not contributing as of September 2019. The goal was to get these participants to start contributing. Four versions of the email were sent out: (1) a personalized email estimating how much the participant missed in matching contributions for the year; (2) an email detailing what other non-contributors missed in matching the previous year on average; (3) an email indicating their agency already contributes one percent, relying on social reciprocity to encourage participant action; and (4) an email noting that 90 percent of civilians contribute to the TSP, relying on social norms to encourage participant action. Ms. Perry indicated that all four emails were more effective than no email. In total, 43,000 participants were contacted by the cumulative outreach effects of OCE and 34 million dollars of additional contributions were made as a result.

Mr. Courtney provided an overview of the latest Thrift Savings Planner. The publication was sent to 3.5 million participants the prior week via email. The emails were generally the same, however, there was some A/B testing, including a different title. Emails with the title, "TSP Stats for Your Water Cooler Chats," received a significantly higher click rate. The publication reminded participants that a combined fourth quarter statement and annual statement would be mailed out in the first week of February. The publication reviewed 2019, including statistics related to the total amount of TSP participants, total assets in the TSP, L Fund participation statistics, and the average TSP balances for traditional and Roth. Mr. Courtney reviewed information related to the ThriftLine call volumes and wait times detailed in the publication. Mr. Courtney discussed the efforts of OCE, Education and Outreach Division trainers, which the Thrift Savings Planner notes communicated with 80,000 people in 2019. OCE

trainers appeared at 500 live events and hosted over 100 webinars. The publication included links to recorded webinars for convenience.

Member Jasien noted that the Thrift Savings Planner contained a link to the ThriftLine phone number, which appears to encourage participants to call the ThriftLine. Mr. Courtney replied that the agency is committed to communicating with participants in the way they want to communicate. The publication also announced OCE's podcast, to provide another means of engage with participants. Mr. Courtney indicated the switch to an electronic Thrift Savings Planner allows OCE to track how many people click on the links within the email, how many people share the email, how many people click unsubscribe, and generally provides more indicators to improve participant communication and education.

In reply to Chairman Kennedy's question regarding TSP Twitter activity, Mr. Courtney indicated that OCE decided to use Twitter in a more strategic and limited way in response to participant feedback and participant focus groups. Mr. Courtney noted that video content on YouTube remains a popular method for participant education and engagement.

7. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:37 a.m. for executive session, which commenced after a 10 minute break at 9:47 a.m.

At 11:05 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 11:05 a.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. December 2019 Performance Review – G, F, C, S, I, and L Funds

3. Audit Status
4. FY 2020 First Quarter Budget Review
5. Annual Review of Administrative Expenses for 2019
6. Internal Audit Update
7. CY 2020/2021 Internal Audit Plan
8. Internal Audit Charter
9. Social Science Outreach