MINUTES OF THE MEETING OF THE BOARD MEMBERS

November 16, 2010

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on November 16, 2010, at 9:03 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Alejandro M. Sanchez of Florida, member, by telephone; Michael D. Kennedy of Georgia, member; Dana K. Bilyeu of Nevada, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Pamela-Jeanne Moran, Director, Participant Services; Mark A. Hagerty, Chief Information Officer; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Thomas J. Trabucco, Director, External Affairs; and Renée Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the October 18, 2010 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the October 18, 2010 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 October 18, 2010 be approved.

2. Thrift Savings Plan activity report by the Executive Director.

a. Monthly Participant Activity Report

Ms. Wilder discussed the report on TSP statistics. See “Thrift Savings Fund Statistics” (attached). The total balance of the TSP Funds reached approximately $270 billion in October. The FERS participation rate is 83.3%.

Ms. Wilder reported that approximately 51,500 newly hired Federal employees have been automatically enrolled since the beginning of August. Approximately 1,600 newly hired Federal employees declined participation in the TSP before they were automatically enrolled or opted out of participation in the TSP after they were automatically enrolled.

Chairman Saul asked Ms. Wilder to explain the columns in the “Thrift Savings Plan Automatic Enrollment” chart. She explained that the “Auto-Enrolled” column tracks individuals who were automatically enrolled and have not
made any change to their status since they were automatically enrolled. The second column, "Elected TSP," tracks individuals who affirmatively elected to participate in the TSP before they were automatically enrolled. These individuals never had auto-enrolled status. The sum of columns one and two equals the number of new civilian TSP participants.

The third column, "Declined TSP," tracks individuals who opted out of the TSP before they were automatically enrolled. The fourth column, "Opted-out," tracks individuals who were automatically enrolled and who subsequently opted out. The fifth column, "Other Investment Decision," tracks individuals who changed their deferral rate or made a contribution allocation, interfund transfer, rollover, loan, or withdrawal after being automatically enrolled.

Ms. Wilder noted that the "Thrift Savings Plan Automatic Enrollment" chart does not track the elections of uniformed services members because uniformed services members are not eligible for automatic enrollment.

Mr. Kennedy referenced an article he read that suggested lifecycle funds are the optimal default investment for automatically enrolled participants. He asked whether the Board and Agency staff have considered changing the TSP default fund from the G Fund to the L Funds.

Mr. Trabucco explained that the Agency sought legislation in 2008 that initially included language that would have made the L Fund the default investment option. That language did not make it into the version of the bill that ultimately passed.

Ms. Bilyeu pointed out that lifecycle funds are the safe harbor default investment option for private sector plans. All of the Board members agreed that the L Funds should be the default option and that this issue will be revisited in the future.

Mr. Saul inquired about the status of the Agency's targeted mailings to the group of noncontributing civilian participants who were Federal employees before automatic enrollment began. Ms. Moran said the Agency recently sent a mailing to those individuals and that she is waiting until the end of the month to see how many of those individuals have since started contributing. Once she determines the impact of the prior mailing, she will determine which population of participants would most benefit from the educational DVD that the Agency has produced.

Mr. Saul asked Ms. Moran to present excerpts of the DVD at the January or February Board meeting. Ms. Bilyeu asked whether the Agency has explored the possibility of streaming the DVD content on the TSP website. Mr. Long and Mr. Hagerty explained that the Agency will, in the future, look into options for
streaming the DVD on the website, making the DVD downloadable from the website, and/or hosting the DVD on a separate domain.

Mr. Saul asked which participants will receive the DVD. Ms. Moran and Mr. Long explained that they have not yet determined which population of participants will receive the DVD. It will depend on factors such as the size of certain populations at the time of the mailing (e.g. noncontributors, automatic enrollees, individuals who are contributing 100% to the G Fund), how many DVDs the Agency anticipates producing, and how quickly the Agency can make the DVD content available on the website. Mr. Saul asked when they will decide which participant will receive the DVD. Mr. Long said he expects to identify the target population this month.

Ms. Moran and Ms. Wilder described the content of the DVD. This DVD contains more expansive information about investment options than did the original L Fund DVD, which was introduced in 2005. It has three lessons: (1) an introduction to the TSP, retirement planning, and investment concepts, (2) information about the five individual TSP funds and how to make contribution allocations, interfund transfers, etc., and (3) information about the L Funds. It takes approximately an hour and a half to complete all three lessons and each lesson has a quiz at the end.

Ms. Bilyeu asked Ms. Wilder if the “FERS Not Contributing with Agency Contributions” statistic on page one of the “Thrift Savings Fund Statistics” report represents active employees that have suspended contributions. Ms. Wilder explained that this statistic includes individuals who have separated from Government service. Mr. Long explained that it also includes individuals who are prohibited from contributing for a six month period because they took a hardship withdrawal.

Ms. Bilyeu asked what the Agency can do to encourage individuals who have voluntarily suspended contributions to start contributing again. Ms. Moran explained that participation is a frequent topic of articles featured in “Highlights.” Participants will receive “Highlights” with their annual statements in February.

b. Monthly Investment Performance Report

Ms. Ray reviewed the November 8, 2010 memorandum, entitled “October 2010 Performance Review” (attached). All of the funds, except the F Fund, experienced positive returns in October. The F Fund dropped a full percent in October due to rising interest rates. There is some tracking error in the F Fund and S Fund year-to-date due to the optimization process and also in the I Fund because the indexes are reported with dividends after tax and the TSP does not pay tax on dividends.
The trading costs for the month were fairly low. The G Fund rate was 2.13 percent again in October. The 10 year T-note rate has increased in November from 2.60% to 2.9%. The 30 year T-bond has increased in November from 3.98% to 4.36%. These rate increases are driving the negative F Fund performance and may lead to an increase in the G Fund rate for the month of December.

The number of participants with money invested in the L 2010 Fund dropped from approximately 111,000 to 101,000 during October. There was also an anomalous rise in the number of participants who moved money into the L 2020 Fund. Ms. Ray explained that the Agency recently sent a mailing to participants in the L 2010 Fund informing them that the L 2010 Fund would retire at the end of the year and that their money would be automatically rolled into the L Income Fund. Ms. Ray further explained that some of the individuals who received the letter must have decided to move the money they had invested in the L 2010 fund into other funds, primarily with the L 2020.

c. Legislative Report

Mr. Trabucco informed the Board that Congress returned for its lame duck session this week. He explained that the Agency still has one bill (H.R. 4856) pending in the 111th Congress. H.R. 4856 would allow separating participants to make contributions from their terminal annual leave payment.

Mr. Trabucco reminded the Board that the Congressional Budget Office determined that this measure would cost $317 million in foregone tax revenue. Therefore, it cannot make it through the House of Representative unless there is a pay-for attached to it in the legislation. He explained that H.R. 4856 will be reintroduced next year in the event that Congress adjourns without taking action on it.

3. **2011 Board Member Meeting Dates**

Due to schedule conflicts, the Board agreed that the January Board meeting would take place on January 25th, 26th, 27th, or 28th. The Board will determine which of these dates works best and will announce the date at the December meeting.

Chairman Saul expressed an interest in establishing joint meetings with ETAC on an annual basis. Mr. Trabucco agreed to consult with ETAC about having a joint meeting in the coming months and/or establishing annual meetings.

4. **Closed Session.**

On a vote taken by the Secretary, the members closed the meeting at 9:55 a.m. for executive session.
At 10:50 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 Saul adjourned the meeting at 10:50 a.m.

**MOTION:** That this meeting be adjourned.

Thomas K. Emwiler  
Secretary

**Attachments**

1. Thrift Savings Fund Statistics
3. 2011 Board Member Meeting Dates