MINUTES OF THE MEETING OF THE BOARD MEMBERS

September 16, 2011

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on September 16, 2011, 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 Andrew M. Saul of New York, member (by telephone); Alejandro M. Sanchez of Florida, member (by telephone); Dana K. Bilyeu of Nevada, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer (by telephone); Renee Wilder, Director, Research and Strategic Planning.

1. Introductory comments.

Chairman Kennedy announced that Ron McCray and David Jones have been nominated by the White House to serve as Board members. If confirmed by the Senate, Mr. McCray and Mr. Jones will replace Alejandro Sanchez and Andrew Saul. Chairman Kennedy thanked Mr. Sanchez and Mr. Saul for their service as Board members and commended them for their contributions to the FRTIB.

Chairman Kennedy also discussed his intent to add a strategic planning component to each of the Board meetings. In addition to receiving updates each month on the current status of the Agency’s operations, he would also like to receive updates regarding the Agency’s strategic planning efforts.

2. Approval of the minutes of the August 15, 2011 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the August 15, 2011 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 August 15, 2011 be approved.

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

a. Monthly Participant Activity Report
Ms. Wilder reviewed the report on TSP statistics. See “Thrift Savings Fund Statistics” (attached). She informed the Board that the TSP received $2 billion in contributions during August. However, the total TSP fund balance dropped from $287 billion in July to $280 billion in August due to market performance. She also reported that 45% of the total TSP fund balance is now invested in the G Fund because participants tend to move their money to the safety of the G Fund when the market performs poorly.

Ms. Wilder also reported that the FERS participation rate is holding steady at 85.5%. However, the automatic enrollment opt-out rate increased to 2.7% in July and remains at 2.7% in August. Ms. Wilder informed the Board that the TSP’s opt-out rate is well under the average opt-out rate of private sector plans.

Ms. Bilyeu expressed interest in tracking the number of participants who make active account management decisions after being automatically enrolled. Mr. Sanchez observed that the National Oceanic and Atmospheric Administration, a component of the uniformed services, has a 65% participation rate despite the fact that its members do not receive matching contributions.

b. Monthly Investment Performance Report

Ms. Ray reviewed the September 9, 2011 memorandum, entitled “August 2011 Performance Review” (attached). She reported that the S Fund had some tracking error in the month and year-to-date as a result of the optimization process. She also reported that the I Fund’s trading costs were negative in the month of August.

Ms. Ray explained that participants benefit when trading costs are negative. She also explained how trading costs can be negative and why trading costs tend to be higher in the I Fund than in the other funds. It is because the foreign markets are closed when the TSP gives its trading orders to BlackRock. Thus, any difference between the price of securities when the foreign markets close and the price of securities when the foreign markets open results in trading costs for the I Fund.

The G Fund rate has decreased from 2.25% to 1.88%. Year-to-date, the C Fund is down 2.5%, the S Fund is down 5.5%, the I Fund is down 10.8%, and the F Fund is up 6.31%. Ms. Ray also reported that, for the third month in a row, participants transferred over $2 billion into the G and F Fund during the month of August. The TSP processed almost 240,000 interfund transfers in August.

c. Legislative Report

Mr. Trabucco explained that the Senate will consider the nomination of David Jones and the re-nomination of Dana Bilyeu under new rules
intended to expedite the confirmation process. Mr. McCray, whose nomination was received before the August recess, will not be considered under the new rules for expediting senate confirmations. Mr. Trabucco expects the Senate to hold a hearing next Friday on Mr. McCray’s nomination.

4. **Annual Budget Report.**

Mr. Long began the annual budget report by explaining that the budget proposal has been informed by strategic planning exercises that the Agency has undertaken in the last couple of years. He also stated that he looks forward to working with the Board to add more detail to the Agency’s strategic plan.

Mr. Long briefly discussed the Agency’s accomplishments during 2011. Specifically, the Agency (1) delivered on its primary and ongoing strategic goal of dial-tone consistency; (2) implemented the OmniPay payment and tax reconciliation system; (3) upgraded its document workflow management system; (4) implemented beneficiary participant accounts; (5) implemented automatic enrollment for civilian accounts; (6) introduced the L 2050 fund and retired the L 2010 Fund; (7) initiated a new process to accept and process child support court orders; and (8) successfully completed the virtualization of all data center servers.

Mr. Long explained that the Agency expects to have spent 98% of the budget allocated for FY 2011 before the end of the fiscal year. Mr. Long reminded the Board that the 2011 budget was frozen at the 2010 level, except for an adjustment of $1.5 million for test tools.

Mr. Long informed the Board that his number one priority is always dial-tone consistency. He defined dial-tone consistency as excellence and reliability in daily operations and ensuring that the Agency is open for business every day. His number two priority is developing and maintaining a motivated and talented workforce and robust and secure infrastructure in order to ensure that his first priority is accomplished. His third and fourth priorities are launching innovating programs and building stronger partnerships with stakeholders.

Mr. Long proposed a budget of $143.1 million for FY 2012. He explained that his proposal is an $11.3 million, or a 9%, increase over the FY 2011 budget. He further explained that there several forces driving the Agency’s increased costs.

First, the Agency is getting larger and more complex because it is offering more services to more participants. Second, the Agency will incur a one-time cost in FY 2012 to move to another location. This expenditure will ultimately save the Agency money because the long-term cost of staying in the existing location exceeds the short and long-term costs of moving to the new location. Third, the new Roth feature will drive significant record-keeping and process changes.
Mr. Long then reviewed specific budget items that are driven by growth related increases in system utilization. Record-keeping costs for data centers and call centers are expected to increase by $5 million due, in part, to increases in system utilization. Mail handling, data entry, benefits processing, and system accounting costs are expected to increase $1.1 million. Mr. Long pointed out that these costs are correlated with an increase in transactions as Baby Boomers enter retirement. Participant communications costs are also expected to increase by $1.6 million in FY 2012 due to new and revised forms and education materials necessary for the Roth feature.

Mr. Long estimates that personnel costs will increase by $2.1 million in FY 2012. He explained that this increase is driven primarily by calculating the full year expenditures for staff hired in FY 2011. In addition, the Agency has added seven new positions.

Mr. Long informed the Board that his initial estimate for FY 2013 obligations is $145.8 million, or $2.7 million above the FY 2012 budget. He explained that record-keeping costs are projected to increase, partly due to the cost of maintaining off-warranty hardware. Personnel costs are projected to be higher in 2013 than in 2012 because the staff hired mid-year or end of year in 2012 will be on the payroll for the entire year in 2013. However, the Agency does not plan to hire new personnel in 2013. The projected increase in record-keeping and personnel costs is partially offset by a projected decrease in communications costs and the cost of other Agency operations.

Mr. Long explained that, although he is proposing a budget increase, fees charged to participants will remain unchanged. The bottom line, Mr. Long said, is that the TSP is offering more services to more participants for the same fees.

Chairman Kennedy asked if any of the Board members had questions or comments on the budget proposal. Ms. Bilyeu emphasized that, although the cost of the plan is growing in dollar amounts, the cost is not growing on a per person basis. She said the goal is to provide more services to more people without raising the cost on a per person basis. She commended Mr. Long for accomplishing this goal and expressed her willingness to support the proposed budget.

Mr. Saul expressed concern about the size of the budget increase. He advised Mr. Long that the Agency should not spend more simply because the plan is getting bigger and stated that the plan can never get too inexpensive to the participants. Mr. Saul then said he would like to abstain from voting on the budget.

Mr. Long thanked Mr. Saul for his comments. He explained that he takes Mr. Saul's comments very seriously and that is why today's budget proposal is $5 million less than the budget he projected for 2012 a year ago.
Chairman Kennedy entertained a motion for approval of the fiscal year 2012 budget. The following motion was made, seconded, and adopted with Chairman Kennedy and Ms. Bilyeu in favor, Mr. Sanchez opposed, and Mr. Saul abstaining.

**MOTION:** That the Agency's proposed fiscal year 2012 budget, as set out in the September 9, 2011 memorandum, be approved.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 9:50 a.m.

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

[Signature]

Thomas K. Emshwiller
Secretary

Attachments

1. Thrift Savings Fund Statistics
3. Fiscal Year 2011 Projected Expenditures, Fiscal Year 2012 Budget, and Fiscal Year 2013 Budget Estimate