THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 23, 2012

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 23,2012, at 9:00 a.m., Eastern Time. The meeting was at the Board's offices at 1250 H Street, N.W., Washington, D.C. Parts of the meeting were open to the public and parts were closed to the public. In attendance were Dana K. Bilyeu of Nevada, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Senior Advisor; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; William H. Jacobson, Acting Chief Investment Officer; Thomas J. Trabucco, Director, External Affairs; Mark E. Walther, Chief Information Officer; and Renee Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the December 19, 2011 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the December 19, 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 December 19, 2011 be approved.

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

Mr. Long reflected on the 2011 year for the TSP, noting that contributions reached $25 billion for the year, which is a record amount. In addition, over 100,000 new participants joined the TSP, a reflection of participant confidence in the plan. Expenses for the TSP continue to be lower than any other comparable plan.

a. Monthly Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder noted that at this time, the plan has almost $295 billion in assets, and more than 4.5 million participants.

Fund distribution, in terms of asset allocation, remained steady through the last quarter. Participation rates decreased in the fourth quarter, ending the year with an 84.6 percent participation rate.

Ms. Wilder explained that the participation rate is affected most significantly by the number of Federal employees separating from Government service. In December the number of employees separating from Government service, including retirements, rose to over 65% of November's separation numbers. As the end of the year approaches, participants are reaching the contribution limit and are unable to make contributions for the rest of the year, and not receiving matching contributions as a result. A third factor contributing to the decrease in participation rates is a rise in hardship and age-based withdrawals. Ms. Wilder noted a 5.8 percent increase in 2011 in the number of hardship withdrawals compared to 2010.

a. Legislative Report

Mr. Trabucco reported on developments related to the debt suspension period. There is a statutory limit on the amount of debt that the U.S. Government can issue. Since the TSP's existence, the government has approached that limit 30 times. On 12 of those occasions, the limit was not raised prior to reaching the debt limit, and the Secretary of the Treasury was unable to issue anymore debt until it was eventually raised. In 1987, the Agency asked Congress for legislation that guarantees that earnings will be paid on investments when securities are not issued. Consequently, even though securities are not being issued, interest continues to be paid and loans and withdrawals are unaffected. The Agency continues to operate as usual during this debt-issuance suspension period.

c. Monthly Investment Performance Report

Mr. Jacobson reviewed the fund performance memorandum, entitled "December 2011 Performance Review – G, F, C, S, I, and L Funds" (attached). On the first page, he noted that what appears to be 8 basis points of Tracking Error in the Fixed Income Fund is a reversal of the positive error from the previous month. In the International Fund, the fair value adjustment that occurred the last day of November was reversed in December. For the year, the I Fund outperformed its index by 35 basis points, which is primarily attributable to tax effects. The Small Cap Fund also outperformed its index by 35 basis points, which was a result of the optimization process.

Trading costs were mostly normal for the month. The I Fund costs were higher than average for the year, but not abnormal.

The G Fund rate for the month was 1.5 percent. Board member Jones asked if there was an average maturity of G Fund debt, and suggested adding that calculation to the report. Mr. Jacobson agreed and said that it will also be updated in the TSP's Fund Information Sheet, which is distributed to participants.

The month-to-date return for the Fixed Income Fund was 0.3 basis points. The Large Cap Fund is up 4.1 percent, the Small Cap Fund is up 5.6 percent, and the International Fund is up 3 percent month-to-date.

Lifecycle Funds continue to perform as expected, earning moderate returns. Interfund transfers were the highest they have been since 2008. Mr. Jacobson recommended that the Investment Policies of the G, F, C, S, and I Funds be continued.

The members then revisited the Board's investment policy and made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f)(1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

d. Vendor Financial Status Report

Mr. Petrick noted that Sungard has been added to the list of vendors whose financial records are tracked by the Agency. See "Quarterly Financial Assessment of TSP's Primary Vendors January 2012" (attached). Mr. Petrick explained that Sungard is a privately held company, but he examined their financial data filed with the SEC. He noted that they are a leading provider of the type of software vital to the operations of the Agency's system, but they have shown losses for the last two years. Mr. Petrick finds nothing in their operations that should cause concern, but because they've shown a loss the Agency will continue to monitor their financial situation.

Mr. Petrick also informed the Board that the Agency's annuity provider, MetLife, has recently been in the news due to a number of lawsuits alleging that they have not used up-to-date death benefits when calculating death benefit payments. Because of this, Mr. Petrick and Ms. Moran investigated and confirmed that MetLife is using up-to-date tables for TSP annuitants.

e. Annual Administrative Expenses Report

Mr. Petrick reviewed the expenses for the year. See "Gross and Net Expenses" (attached). Mr. Petrick noted the way that forfeitures reduce the expenses of the Agency, and reviewed the bases for forfeitures for the Board members. In particular he highlighted FERCCA forfeitures, which occur when an employee is mistakenly classified as a FERS employee instead of a CSRS employee. If that mistake is not corrected within a certain time period and the employee chooses to be reclassified as CSRS, the contributions made to the TSP by the participant's employing agency are forfeited. Mr. Long pointed out that this process is important to share with the Board and participants because if FERCCA correction numbers start to meaningfully shrink, the expenses charged to the participants could be impacted.

Mr. Long noted that the Agency's budget has increased over the last several years, and pointed to significantly more assets, a more stable and secure infrastructure, improvements in Web functions for participants and automatic contributions, auto enrollment, and the upcoming Roth function as contributing factors.

3. Audit Process Report

Mr. Long introduced the Agency's Comptroller, Anne Beemer. Ms. Beemer reminded the Board that the Agency is responsible for nearly $300 billion worth of resources and retirement for 4.5 million people. Consequently, audits are critically important. Ms. Beemer informed the Board members that the Federal Retirement Thrift Investment Board is one of the most extensively audited Federal agencies. The Agency is subject to three types of audits: (1) an annual financial audit of the Thrift Savings Fund, (2) performance audits for various programs and critical processes, and (3) ad hoc audits that are generally requested by Congressional Members or Congressional committees.

The Agency is required by statute to have an annual audit of its financial statements. The annual audit of financial audits is currently performed by Clifton Larson Allen, formerly Clifton Gunderson. The Agency's contract with Clifton Larson Allen is a three year contract with two option years. The contract is currently in its first option year. Ms. Beemer informed the Board that Clifton Larson Allen is on the premises as the Board meeting occurs performing its financial audit of the statements for December 31, 2011, compared with December 31, 2010.

Mr. McCray inquired about Clifton Gunderson's organizational change. Ms. Beemer explained that Clifton Gunderson merged with Larson Allen. Ms. Bilyeu added that Clifton Gunderson, which operated primarily on the east coast, and Larson Allen, which operated primarily on the west coast, are trying to gain more national coverage. Ms. Beemer explained that the merger nearly doubled the auditor's size.

Ms. Beemer informed the Board that the results of Clifton Larson Allen's audit will be presented to the Board in April. She was very happy to report that the Agency has received an unqualified opinion of its financial statements every year since the inception of the Thrift Savings Plan. She also informed the Board that Clifton Larson Allen does a mid-year review of the Agency's June 30th statement, and that is usually presented to the Board at the October meeting.

Ms. Beemer explained that the Department of Labor is required by statute to conduct performance audits of the Thrift Savings Plan. The Department of Labor has contracted with KPMG to perform these audits since the inception of the Thrift Savings Plan. KPMG's audit generally looks for fundamental recommendations and recommendations that will improve the efficiency and effectiveness of the Agency's operations and procedures. The Department of Labor generally meets with the Board at the February meeting to discuss upcoming audits and to review prior-year recommendations. Mr. Long interrupted to introduce a representative from the Department of Labor, Mr. Bill Bailey. He pointed out that Mr. Bailey attends every Board meeting.

Mr. Jones asked whether the Department of Labor bears the cost of the audit. Ms. Beemer explained that the Department of Labor is required by statute to conduct, oversee, and bear the cost of the audit. She then explained the Department of Labor's audit process.

At the beginning of each fiscal year, Agency staff, the Department of Labor, and the audit contractors hold an entrance conference to discuss the audits for the upcoming year and to devise a preliminary schedule for conducting those audits. During the entrance conference, the Department of Labor and Agency staff discuss the purview of a particular audit, the audit objectives, the scope of the audit, and the logistics of accomplishing the audit. The auditors give the Agency a Prepared By Client list, also known as a PBC list, which is used to track the auditor's requests and the Agency's responses to those requests. A start time for field work is also established during the entrance conference.

The field work for a particular audit can vary by the subject of the audit – whether it is a full scope review, limited scope review, or a special project. Various members of the Agency staff and contractor staff will be interviewed and will be responsible for responding to particular PBC items. Items can include policies, procedures, flow charts, data sets, interviews with subject matter experts, and "walk-throughs" of procedures.

Following the field work for a particular audit is a reporting phase. The first stage of the reporting phase consists of an Exit Conference during which the auditors will present a draft Section III of the report, which sets forth the auditor's potential findings and recommendations. The Exit Conference is followed by an informal report to which the Agency has 30 days to respond. During the informal report stage, the Agency provides general comments to correct or clarify text and to resolve any potential misunderstandings regarding the purpose of the recommendations. The informal report stage is followed by a formal report stage. During the formal report stage, the Agency will respond to the recommendations that are in the report. The Department of Labor will then publish the report, including the Agency's responses to the recommendations, as part of the printed report. The final report is presented to the Board at the Board meeting following its completion.

Ms. Beemer explained that the Agency also has ad hoc audits which are generally requested by Congressional Members or Congressional committees and are conducted by the Government Accountability Office (GAO), an independent agency in the legislative branch. The process for ad hoc audits is similar to the process for Department of Labor audits.

Ms. Beemer briefly discussed a report of an ad hoc audit of the Agency's annuity operations. This was primarily an audit of how MetLife conducts the TSP annuity program. The report contained one recommendation. The recommendation, which was directed to MetLife, pertained to the speed at which MetLife recognized a deceased participant. MetLife has already taken corrective action on this recommendation.

Ms. Bilyeu asked if the Agency has an internal risk assessment program in which Agency staff can identify areas that might need to be audited before they are formally audited. Mr. Long explained that the Agency created a cross-functional risk mitigation team three years ago. However, the individuals on the team are resource constrained. He further explained that he intends to seek additional personnel for an internal risk management function during budget discussions in May. Ms. Beemer informed that Board that the risk mitigation team recently provided some recommendations on the Agency's manual disbursement process and that the Agency is beginning to conduct an in-house review of controls related to securities lending activity. Mr. McCray added that he would like to have further discussions about the Agency's internal audit function.

Ms. Beemer spoke briefly about OMB Circular A-123. She explained that OMB Circular A-123 is the government equivalent to Sarbanes-Oxley. Mr. McCray asked if any of the external auditors are involved in a review of internal controls. Ms. Beemer explained that Clifton Larson Allen looks at controls as it relates to the financial statement, but they do not do a formal review of internal controls. Clifton Larson Allen also does an IT security review as part of its financials audit. Mr. McCray asked more specifically whether Clifton Larson Allen gives the Agency an opinion on internal control of financial reporting. Mr. Petrick explained that, although Clifton Larson Allen looks at internal controls in order to opine on the financial statements, they do not give a separate opinion on internal controls.

Ms. Bilyeu asked if the Agency does a periodic four or five year internal control review. Mr. Long explained that the Agency explored the possibility of periodic internal controls reviews about three years ago. He explained that it was going to be a significant expenditure and, at that point in time, the Board elected not to pursue it. He added that he would be happy to revisit this idea.

Mr. Kennedy explained that, since the Agency has such a small Board, it does not have a separate audit committee. He then asked whether the Board has ever met alone in executive session with the external auditors. Ms. Beemer explained that, to the best of her knowledge, the Board members have never met alone with the auditors. She added, however, that the auditors and the Agency staff would certainly welcome that. Mr. Petrick explained that the Agency's auditors are regularly reminded that they may bypass Agency staff and go directly to the Board if at any time they have findings that they want to bring directly to the Board. Mr. Long added that the Board members are welcome and encouraged to communicate directly with the auditors.

Mr. Long and Mr. Emswiler reminded the Board that the Sunshine Act requires Board decisions to be made in a public meeting. But Mr. Emswiler further explained that the Sunshine Act would not prohibit information-gathering. At this point, Mr. Emswiler distributed a memorandum explaining the requirements of the Sunshine Act (attached).

Ms. Bilyeu inquired about the notice provisions of the Sunshine Act. Mr. Emswiler explained that the Board Secretary must publish a notice in the Federal Register seven days in advance of the meeting. The notice includes the agenda for the meeting and, if there are items to be discussed in executive session, it will enumerate the general topic of those items. Mr. McCray asked if the Agency must provide a conference number to the public when the Board has a telephonic meeting. Mr. Emswiler explained that members of the public and the press can listen to telephonic Board meetings from the Board room. Mr. Long added that the Agency works hard to be an open book and that, in turn, translates into trust from participants and the community at large.

4. Scheduling and Other Miscellaneous Items

Mr. Long noted that the Board has not previously established firm ending times for Board meetings. However, he gathered during informal discussions with Board members that it may be helpful to do so now for scheduling purposes. He proposed to end all Board meetings by not later than 1:00 p.m. He also noted that the November meeting, which is currently scheduled on the Monday following Thanksgiving weekend may need to be rescheduled and that the March meeting will likely occur at the Board's new office at 77K Street. Mr. Kennedy asked Mr. Long to reschedule Ms. Wilder's strategic planning presentation to a date on which the Board can meet in person. Mr. Long agreed that Ms. Wilder's strategic planning presentation should be conducted in person instead of telephonically and requested that the Board allow him to revise some of the meeting dates and present them with an alternative schedule.

Mr. Kennedy pointed out that he saw some new people in the room and asked Mr. Long if there are any members of his staff that he would like to introduce. Mr. Long introduced the Board to Roy Friend, Tee Ramos, and Sheila Fry from the Office of Automated Systems; Raymond Rabatin from the Agency's procurement team; and Gisile Goethe from the Office of Participant Services.

The Board members requested to receive their Board meeting materials via e-mail in lieu of receiving a hard copy.

5. Closed Session

On a vote taken by the Chairman, the members closed the meeting at 10:26 a.m. for executive session.

At 12:48 p.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 12:48 p.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments
1. Thrift Savings Fund Statistics
2. December 2011 Performance Review –G, F, C, S, I, and L Funds
3. Quarterly Financial Assessment of TSP's Primary Vendors January 2012
4. Gross and Net Expenses
5. Overview of the TSP/FRTIB External Audit Process
6. Requirements of the Sunshine Act