FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 27, 2020

David A. Jones, Acting Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 27, 2020, at 10:00 a.m., Eastern Time. The meeting was held telephonically and open to the public. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, 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 June 22, 2020 Board Member Meeting.

Acting Chairman Jones entertained a motion for approval of the minutes of the June 22, 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 June 22, 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, June 2020" (attached). Mr. Ramos noted that the Thrift Savings Plan now has over six million participants and the FERS and active duty uniformed services participation rates have continued to increase to 93.3 percent and 71.3 percent, respectively. The Plan experienced a higher volume of hardship withdrawals in June, with a 39 percent increase over May which reflects a higher-than-typical seasonal increase. However, the run rate for hardships is tracking to be 4 percent lower than 2019.

b. Legislative Report

Ms. Weaver reported that the day after our June Board Meeting, Senator Patty Murray introduced a bill that would create a second open season for Blended Retirement System Participants. This bill would not expand the pool of those eligible for opt-in and would be limited to the same pool that was in effect on January 1, 2018. The open season period would be chosen by the Secretary of Defense to last six months, no sooner than one year and no later than two years after the period of enactment of the bill. The FRTIB worked with Senator Murray's staff to ensure the technical feasibility of the proposed legislation.

Member Jasien asked questions about the chances of this ultimately being enacted into law. Ms. Weaver noted that this was introduced as an amendment to the Senate defense authorization bill, but was ultimately not included, and so the only option that remains is it being moved as a free-standing bill. A potential hurdle to this bill is that it would need to be scored by the Congressional Budget Office, because it would cause the Department of Defense to outlay money not originally planned due to matching dollars.

The two defense authorization bills have passed their respective chambers. In the House authorization bill, there is a provision that requires the Department of Defense to provide a report back to Congress on whether spouses of uniformed service members could contribute to the uniformed service member's TSP account. The FRTIB will have the opportunity to comment on DoD's report.

Member Jasien asked whether or not this would be considered a separate account. Ms. Weaver confirmed that it would be a consolidated account, and there exist some questions about who owns the account and what would occur in the event of divorce.

3. Quarterly Reports.

a. Investment Policy

Mr. McCaffrey reviewed the monthly investment performance report. See "June 2020 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for June, BlackRock's performance for the F and C Funds was in line with the Funds' respective indices. The S Fund underperformed the small-mid cap index by 5 basis points, due to securities sampling. BlackRock's performance for the I Fund was ahead of the International Index by 5 basis points, primarily due to futures mistracking and tax advantage. For the F and C Funds year-to-date, BlackRock's performance was in line with the Funds' respective indices. Year-to-date, for the S Fund, BlackRock underperformed the Small Mid Cap Index by 19 basis points, primarily due to securities sampling and futures mistracking. Its performance for the I Fund year-to-date exceeded that of the International Index by 30 basis points, primarily due to tax advantage.

Mr. McCaffrey stated that during the month, investors continued to face mixed signals relating to the economic impact of the pandemic. Early in the month, a sharp increase in the number of employed Americans inspired hope for a fast recovery. Later, however, several large states were slowing their normalization measures in response to rising infection rates. The Federal Reserve, meanwhile, continued its supportive policy measures, and, in the end, stocks held their gains. All of the L funds finished the month higher.

The picture for TSP equity funds through July 24, 2020 is decidedly positive. The C Fund improved by 3.82 percent. The S Fund was up 3.95 percent. The I Fund gained 4.53 percent. In fixed income, the F Fund is ahead 1.19 percent and the G Fund is up 0.05 percent. The C Fund is now positive for the year as of Friday, and it is almost 45 percent off of its closing low in March. There was a bit of an uptick in overall interfund transfer activity for June over May, as well as over historical averages; however, this is not considered alarming, especially when seen through this summary of net IFTs.

The L Funds saw net additions of 31,000 participants, approximately 24,000 of those who invested 100 percent in the L 2050 Fund. Much of this growth was driven by the arrival of new, relatively young participants who were automatically enrolled in FERS or the Blended Retirement System. This is the last month during which the L 2050 Fund will be the default options for the youngest auto-enrollees. In next month's report, the youngest members of the latest group of new arrivals will have been enrolled in the L 2055, L 2060, and L 2065 Funds.

An audit conducted on BlackRock's proxy voting found no exceptions to established guidelines during the first quarter of 2020.

Mr. McCaffrey reported on class action settlements; at the start of the first quarter of 2020, there were 54 claims. Fifteen claims were opened during the quarter. Two claims were settled in the C Fund for a total of about $28,000. Three claims were closed in the S Fund due to administrator action, and seven claims were settled for a total of about 442,000 dollars. At the end of the quarter, 57 claims remained open.

Acting Chairman Jones entertained a motion for approval of the investment policy of the F, C, S, I, and G Funds. The following motion was, seconded, and adopted without objection:

MOTION: That the investment policy of the F, C, S, I, and G Funds be approved.

b. Budget Review

Ms. Crowder provided the 3rd Quarter Budget Review. See "FY20 3rd Quarter Budget Review" (attached). Analyses of the third-quarter budget show that the Agency is executing 93 percent against the Agency's spend plan and 77 percent execution of our overall fiscal year 2020 budget of 385.6 million dollars. 297.5 million dollars were executed by the third quarter, and 65 percent (195.6 million dollars) was in support of our recordkeeping operations and maintenance contracts. Average assets as of the third quarter grew to 612.5 billion dollars.

Member McCray asked about the trajectory of the expense ratio, and whether we see an increase or decrease in the ratio in 2020. Ms. Crowder responded with an estimation that the gross expense ratio would be somewhere around 6.5 basis points and the net would be around 5.5 basis points. However, a great deal depends on the remainder of the next six months of invoices and asset levels. Member McCray followed up asking about fiscal year 2021, and Ms. Crowder responded that we may have a slight uptick due to the potential transition to RKSA while also funding our current recordkeeping contracts. It is currently too far out to be more specific, but in the next month or two after the RKSA award, the Agency will have a tighter expense estimate.

Mr. Deo added that once the RKSA award is complete, during the transition while the FRTIB runs two recordkeeping systems, he expects that the expenses and expense ratio will go up significantly for those two years. The RKSA award is expected to be awarded at some point during this year. He also added that during calendar year 2021 and 2022, there will be a significant temporary bump in expenses, but it will revert to steady state as the Agency reverts to running one recordkeeping system.

c. Audit Status

Mr. Brack Boone, Senior Auditor, provided an audit status update. See "Audit Status/Security and Remediation Status Update" (attached). FRTIB has 12 audits ongoing;

three audits have been completed, eight are in process, and one will start in August. For the Annuity, Insider Threat, and Status of Prior Year Recommendations audits, the Agency has provided formal responses to the report to KPMG, and the Agency will receive the final reports in August. The Board Staff, Withdrawals, and Investment Manager audits are in the reporting stage, and we expect those reports by September 30.

The Mainframe audit poses a challenge because most of the items KPMG needed to review require being on site at FRTIB headquarters. To accommodate this requirement, OERM is working with EBSA and KPMG to determine if this audit can be extended by up to two months.

The FISMA audit is moving along as scheduled; all the FISMA auditors have equipment and are working remotely. This audit is scheduled to be completed on time.

Mr. Boone then provided an update (attached) on the Computer Access audit; three objectives are related to security management control, physical and logical access controls, and privacy controls. We received the report in June; 18 recommendations were closed, 14 were new, and 26 open prior recommendations remain.

Mr. Deo then presented on audit finding closures. This quarter the Agency is 11 closures ahead of target for audit finding closures. He noted that the Agency's intent is to close 125 audits this year, and that it should be able to meet that goal by the end of the 4th quarter.

The Agency currently has open findings that were rated critical at the time of the finding, but because it has conducted remediation on those, they have been moved to either a high risk or lower. Of the 64 findings rated high at the time of the finding, most have been remediated down to a rating of moderate or lower.

Mr. Deo then presented cyber vulnerabilities identified via the DHS' NCATS program, noting that the Agency has never had a critical or high vulnerability. It occasionally finds a medium vulnerability; when such a vulnerability is discovered, the Agency works diligently to push that down as soon as possible.

Member Jasien asked whether the FRTIB was syncing with EBSA in terms of the timing and communication and pipeline for their sign-off. Mr. Deo indicated that the Agency is working very collaboratively with EBSA.

4. <u>CARES Act Update</u>

Mr. Tanner Nohe provided an update on the FRTIB's implementation of the CARES Act. <u>See</u> "CARES Act Board Update" (attached). The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020. FRTIB created the CARES Act Project Team in response to this legislation and implement its key provisions.

The CARES Act project includes four key provisions to enable participants and beneficiaries to leverage new capabilities in response to their financial management needs during the COVID-19 pandemic. The key provisions that dealt with required minimum distributions (RMDs), loan payment suspensions, increased maximum loan amounts, and new CARES Act withdrawals.

The withdrawal provision allows for a one-time withdrawal of up to 100,000 dollars. Participants have three years to repay the distribution and there are no age restrictions, nor is there a 10 percent IRS early withdrawal penalty on this withdrawal. The loan payments suspensions provision allows participants with a current outstanding loan to suspend their loan payments through December 31, 2020. The RMD provision ties into the SECURE Act, which was passed earlier this year. This provision suppressed all 2020 RMDs, and as a result of these changes, the Agency is planning to make changes to the life expectancy rules. The final provision is the loan amount increase, which increased the loan amounts from a maximum of 50,000 dollars to 100,000 dollars, and this is available for all participants through almost the end of September. If a participant takes a new loan amount, those payments are not immediately suspended, but the person can submit paperwork to suspend loan payments.

All changes to the plan were communicated to participants and beneficiaries across all available communication channels, including Plan News, My Account, webinars, and direct mail.

The RMD provision was deployed on April 14. The next item implemented was the loan provisions. The loan payment suspension and increase was deployed on June 13, and the loan withdrawal provision was implemented on July 11. For the loan provisions, the Agency analyzed requirements, designed development changes for each provision, made changes to ten application forms, and worked through roughly 150 test cases. For the withdrawal provision, the team leveraged current functionality for withdrawals, but still made changes to six different applications and went through 102 test cases.

The loan wizard and increased loan amounts expire at 11:59 p.m. on September 22, 2020, and the last day that we will accept paperwork for a loan payment suspension is November 30, 2020. The ability to suspend until the end of the year exists, but the Agency ended the payment suspension period a month early because of the time needed between when the payroll receives the payment suspension and the time loans are going to be suspended. Finally, the withdrawal wizard will be cut off at 11:59 p.m. on December 15, 2020, which will allow the Agency to ensure all withdrawals are processed before the end of the year. The last day of processing CARES Act withdrawals will be December 29, 2020.

As of Friday, July 24, the TSP has over 13,700 withdrawals and the average CARES Act withdrawal is around 26,900 dollars. As of July 16, about 2,922 participants have suspended their loans since the Agency enacted this provision in June. Almost 1,200 people have taken a loan amount over the 50,000 dollars, with the average loan around 74,500 dollars.

Member Jasien asked whether the processing of these loans and withdrawals is more onerous and how it may be affecting our service levels. Mr. Nohe stated that the Agency has seen an increase in activity, but has been able to leverage existing functionality and use existing wizards. He concluded that the Agency has been meeting its service levels again as of late last week.

5. Multi-asset Manager Update

The Multi-asset Manager Update, which was originally scheduled for today's Board meeting, has been postponed to a future date.

6. 5-Year L Fund Update

Mr. McCaffrey introduced Mr. Sahr Nyandemoh, Project Manager, and Mr. Michael Jerue to provide an update on the five-year L Fund project. See "L-Funds Project Board Update" (attached). Mr. Nyandemoh stated that the six new L funds opened for investment on time, at noon on June 30, 2020. Over 21 billion dollars in assets owned by approximately 260,000 participants was seamlessly transferred from L 2020 Fund to L Income Fund. As of close of business on July 14, 48,000 participants were invested in the new L Funds with assets totaling 3.7 billion dollars. As of July 24th, 62,000 participants were invested in the new L Funds with assets totaling 4.7 billion dollars. Approximately 13,000 new participants were auto-enrolled in the TSP since implementation of the new L Funds. All of them were assigned to age-appropriate L Funds exactly as planned. The Office of Investments will provide the Board with a formal L Funds report starting in August. The report will include the monthly changes in participation for all ten L Funds. The project team expressed appreciation to the Board and Agency leadership for supporting this project.

7. Conclusion

On a vote taken by the Acting Chairman, the members closed the meeting at 10:48 a.m. for executive session.

At 11:17 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 Acting Chairman Jones adjourned the meeting at 11:17 a.m.

MOTION: That this meeting be adjourned.

MEGAN GRUMBINE

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Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics June 2020
2. June 2020 Performance Review – G, F, C, S, I, and L Funds
3. FY20 3rd Quarter Budget Review
4. Audit Status/Security and Remediation Status Update
5. Computer Access Audit and Technical Security Controls summary
6. CARES Act Board Update
7. L-Funds Project Board Update