FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

August 24, 2021

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on August 24, 2021, 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; William S. Jasien of South Carolina, member; Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer, Deputy Executive Director, and Acting Chief Risk Officer; Kimberly A. Weaver, Director, Office of External Affairs, and Acting Director, Office of Enterprise Planning; Susan Crowder, Chief Financial 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.

Welcome and Introductions.

Acting Chairperson Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the July 27, 2021 Board Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the July 27, 2021 Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on July 27, 2021 be approved.

2. Monthly Reports.

Mr. Deo gave opening remarks, including a summary of the agenda for the meeting.

a. Participant Activity Report

Mr. Ramos reviewed the monthly Participant Activity Report. See "Thrift Savings Fund Statistics July 2021" (attached). Mr. Ramos reported that the participation rate is on track to surpass the historically high annual participation rate of 93.5 percent for FERS and 71.8 percent for Uniformed Services set in 2020.

Hardship withdrawals trended down by around six percent this month and the total projected volume for 2021 is about three percent lower than in 2020.

b. Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "July 2021 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for July, BlackRock's performance for the F Fund outperformed the Fixed Income Index by three basis points, primarily because of securities lending. BlackRock's performance for the C and S Funds was in line with returns of the Large Cap Index and the Small Mid Cap Index, respectively. BlackRock's performance for the I Fund lagged the international index by three basis points primarily resulting from futures mis-tracking.

State Street's performance for portions of the F, C, and S Funds was in line with their respective indices.

Regarding the July markets, Mr. McCaffrey reported that despite concerns about the economic recovery resulting from surging cases of COVID, many investors drew confidence from healthy corporate earnings and the belief that inflationary pressures will be transitory. The large cap-focused C Fund held gains while small capitalization stocks did not do as well, which caused the S Fund to fall. The I Fund was ahead slightly, helped by a modestly weaker U.S. dollar. Lower rates on Treasury notes and bonds contributed to the F Fund's gain. All the L Funds rose in July.

BlackRock's year-to-date performance for the F Fund was ahead of the Fixed Income Index by 17 basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index. For the S Fund, BlackRock exceeded the Small Mid Cap Index by eight basis points, primarily resulting from securities lending. Performance for the I Fund was ahead of the International Index by 15 basis points, primarily due to tax advantage.

For the current month through Monday, August 23, returns are mixed. The C Fund is up 2.03 percent. The S Fund is down 0.47 percent and the I Fund has gained 0.93 percent. The F Fund had a small loss of 0.09 percent while the G Fund is ahead by 0.08 percent.

Participation in the L Funds continued to increase, driven largely by automatic enrollment of new participants. As of July 31st, over three million TSP participants had at least some assets in the L Funds, a group representing about 48 percent of the TSP participant population. Additionally, over 1.9 million participants, or 30 percent of the population, invested 100 percent of their assets in the L Funds.

Mr. McCaffrey concluded by reporting that net interfund transfers resulted in an inflow of almost 1.5 billion dollars to the G Fund and an outflow of about 2.4 billion dollars from the S Fund, most likely in response to small cap market movement. Interfund transfers continued to be the exception, not the norm, in July with only about two percent of participants moving assets between funds.

Acting Chairperson Jones pointed out that, in looking at the 10-year view of the asset allocation, the Agency's education efforts and change to defaulting new contributions to the L fund have contributed to growth in participant equity assets, as the overall investment in the G fund has decreased over time.

c. Legislative Update

Ms. Weaver reported that the Senate is not in session. The House is in session and will potentially vote on the budget resolution that would allow them to do reconciliation on infrastructure and other issues.

At the beginning of August, the President announced his intention to nominate four individuals to the Board. The formal transmission of those nominations will occur September 13th when the Senate reconvenes.

3. Quarterly Metrics Report.

Dorothy De Luz, Office of Enterprise Planning, reported on the FY 2021 third quarter key performance indicator results. See "FY21 3rd Quarter Board Metrics Report" (attached). The metric for Strategic Goal B is the best places to work ranking, which is based on results from the Federal Employee Viewpoint Survey. The metric showed improvement from the prior year and met the minimum required performance level of ranking within the top half of all small agencies, continuing the gradual climb in positive employee responses that we have seen over the last three years.

Under Strategic Goal C, the Agency received the investment confirmation receipt for the F, C, S, and I Funds late three days this quarter due to a coding error, training of a new employee, and a software issue. None of these delays impacted the actual investments.

In Strategic Goal D, the FERS full matching contribution rate continued to increase to 80.1 percent, meeting its desired target. The upward trend is expected to continue due to the five percent default contribution rate. Ms. De Luz explained that the TSP's full matching rate is higher than industry norms. While matching profiles vary between plans, industry data indicates that 66 percent of defined contribution participants contribute enough to receive the full allocation of their matching funds. Also, the TSP's FERS and Blended Retirement System participation rates, at over 94 percent, are significantly higher than the industry average of 84 percent and remain even higher when only comparing to plans with an automatic enrollment feature, for which the industry average is 92 percent.

4. Fiscal Year 2022 Budget Review and Approval.

Ms. Crowder began by reporting on fiscal year 2021 in review. See "Annual Budget Presentation, FY21 Review and FY22 Proposal" (attached). In fiscal year '21, Agency activities focused on strategic priorities that were executed against the budget of 498.4 million dollars. This included advanced procurements for POMP, such as the new participant services contract (Converge), the internal Financial Systems Modernization effort (FSM), Managed Security Services (MSS), and Agency IT Services (AITS).

In looking at operational highlights, the Plan has handled approximately 466,000 forms, answered 2.6 million calls, and mailed more than 17.5 million pieces of communication materials to stakeholders. It also processed roughly 96.6 million contributions totaling 24.3 billion dollars for 6.3 million participants and beneficiaries. Converge was awarded in November of 2020 and is on track to be fully implemented in the summer of 2022. The Agency entered into an interagency agreement in June 2020 with the Department of the Interior to handle internal agency financial, contracting, and travel systems, and implementation is expected to be completed in January of 2022. The Agency entered into an interagency agreement with the Department of Justice to provide a security operation center as a service, with full implementation planned for January of 2022. Finally, the solicitation for Agency IT Services will be issued this year with implementation expected in 2022.

Ms. Crowder reported several other notable accomplishments from FY21, including seamlessly providing services to participants during a global pandemic while also supporting Agency employees; increasing the default deferral rate for automatically enrolled participants from three percent to five percent to ensure they receive full matching contributions; implementing Plan changes under the CARES Act and SECURE Act; and testing a variety of outreach strategies, informed by the Agency's social scientists, to improve retirement outcomes for participants. This outreach resulted in an estimated 77,000 participants having more than 220 million dollars more in their TSP accounts.

Ms. Crowder went on to report that the budget grew to a high of 498.4 million dollars in fiscal year 2021; however, fiscal year 2022 starts a relatively flat and downward trend in the budget. She noted that TSP participants are only charged what the Agency actually expends, so the Agency is very prudent in spending the money the Board has approved.

Mr. Deo presented the FY22 budget proposal. He reported that given the enormous progress the Agency has made in technology and cybersecurity in the past five years, the focus for the next five years will shift to improving participant retirement outcomes, providing top-tier services, functioning as a high-performing Agency, and successfully transitioning to a managed services operating model. As Member Jasien noted, technology and cybersecurity will always be a focus as well.

The Agency's primary goal for FY22 is to fully implement Converge, FSM, MSS, and AITS. The managed services operating model will be new for the Agency, so leadership will focus on transitioning Agency staff to the new model while running the Plan seamlessly for participants.

Mr. Deo indicated that the budget request of 496.8 million dollars for FY22 is essentially the same as the previous year because it is a continuation of the same work. In FY23, when the operating model transition is complete, the Agency expects the budget to decline. Moving forward, as a result of these projections, the Agency estimates a gross expense ratio of 6.8 basis points, and that expense ratio will fall next year to 6.2 and then to 5.6. By fiscal year 2024, the Agency expects the expense ratio to be below five basis points.

Acting Chairman Jones entertained a motion for approval of the FY 2022 Budget of 496.8 million dollars. The following motion was made, seconded, and adopted without objection:

MOTION: That the FY22 budget be approved.

5. Participant Satisfaction Survey.

Ms. Weaver introduced Stephen Huber, Deputy Director of the Office of Enterprise Planning. She informed the Board that the Participant Satisfaction Survey was previously conducted every two to three years but will be conducted annually going forward.

Mr. Huber reported that the satisfaction survey is intended to gauge TSP participant satisfaction with current plan features and to help the Agency better understand interest in potential new offerings.

The Agency sent just over 36,000 surveys and had around 5,000 completed responses for an overall response rate of 15 percent. This response rate is an increase of one percent from last year. The overall satisfaction rate for 2021 was 89 percent. Overall satisfaction levels have remained above 87 percent for the past five years.

The Agency measured overall satisfaction by asking participants how likely they were to recommend the TSP to a friend or eligible colleague. A Net Promoter Score (NPS) between 0 and 30 indicates good performance; 30 to 70 indicates great performance; and above 70 is regarded as world class service. Overall, 86 percent of our participants would be likely to recommend the TSP with more than half of our participants being very likely to recommend the TSP. Overall satisfaction with most aspects of the TSP remained stable from 2020. Account security, the annual account statement, and Plan information on tsp.gov remained the highest rated aspects of satisfaction, while the ability to transfer money into or out of the TSP remained the lowest rated aspects. Mr. Huber reported that the survey continues to show that people who contribute more than five percent are the most satisfied with the TSP.

The Agency asked participants who had not begun to make withdrawals yet what option they were likely to use. Participants indicated that they were likely or extremely likely to use reoccurring specified payments followed by partial payments and life expectancy installments as the top three plan choices, with transfers, annuities, and full withdrawals as the bottom three choices. The participants who had already begun withdrawing from the TSP were asked what options they were actually using. Their withdrawal choice preferences are similarly ranked; however, more participants think they will transfer, buy an annuity, or take a full withdrawal than actually do. Six out of 10 participants plan to keep their money in the TSP after retirement.

Regarding participants' perceptions of fees paid to the TSP, only 40 percent of survey respondents had an opinion. Of the 40 percent who had an opinion about fees, about three-quarters of participants think the TSP's fees are among the lowest. However, Uniformed Service participants are more likely to think the TSP's fees are higher than industry standards.

Nearly half of all participants said they have other qualified retirement plans such as an IRA or other 401(k) plans outside of the TSP and nearly half of all participants say they had not considered and did not know that they had an option to roll those funds into the TSP.

Participants were asked which channels of communication were most useful. More than 95 percent of participants found tsp.gov to be useful and 90 percent rated secure emails, messaging and live Thriftline interactions as useful. With regard to potential new offerings, the vast majority of participants are likely to use a tool to help them with retirement draw down, a statement which combines all federal retirement benefits, and individually tailored modeling tools. Sixty-two percent of participants are likely to use a mobile app, 52 percent would be likely to convert their traditional TSP balances to Roth, and over half would use other potential offerings.

Participants were asked if they desire to designate individual funds when requesting interfund transfers, loans, or withdrawal transactions. An overwhelming majority of participants who responded to this question want the ability to designate individual funds for these transactions with roughly three-quarters of participants strongly desiring these features.

When participants were asked what the TSP could do better, the answers were consistent with 2020: better instructions and information, easier account access, and more investment options, as well as providing investment advice and retirement planning.

Mr. Huber summarized the overall recommendations gleaned from the survey. In the area of participant engagement, Uniformed Service participants have an overall lower satisfaction with account access, which will be addressed by improvements planned under Converge. In addition, continuing education campaigns will aim to increase participant awareness of how TSP fees compare to the industry, and the long-term benefits of lower fees. In the area of new features, many participants indicated that they want the ability to designate individual funds or to choose traditional or Roth balances for account transactions; these are currently done on a pro rata basis, so the recommendation is to consider these options after the transition to the managed services model. The survey also showed that many participants have qualified plans outside of the TSP, suggesting that after the Converge implementation, the Agency should emphasize the new concierge roll-in service as well as the benefits of account consolidation and lower TSP fees. Finally, the majority of TSP participants want a mobile app, which will be rolled out in the future.

Member Bilyeu asked if the Agency is still using the TSP Scorecard, a comparison checklist showing the benefits of the TSP, and whether participants find it helpful. Mr. Courtney confirmed that the Agency still uses the Scorecard and receives positive feedback on it.

6. Adjourn.

On a vote taken by the Acting Chairperson, the members closed the meeting at 10:56 a.m. for Executive Session.

At 12:45 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 Acting Chairperson Jones adjourned the meeting at 12:45 p.m.

MOTION: That this meeting be adjourned.

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Date: 2021.10.15 11:44:52 -04'00'

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics July 2021
2. July 2021 Performance Review – G, F, C, S, I, and L Funds
3. FY21 3rd Quarter Board Metrics Report
4. Annual Budget Presentation, FY21 Review and FY22 Proposal
5. 2021 Participant Satisfaction Survey