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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

AND THE EMPLOYEE THRIFT ADVISORY COUNCIL

May 26, 2021

David A. Jones, Acting Chairperson of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 26, 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; Ronald D. McCray of Texas, member; William S. Jasien of South Carolina, member; Ravindra Deo, Executive Director; Dharmesh Vashee, Acting General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer, Deputy Executive Director, and Acting Chief Risk Officer; Kimberly A. Weaver, Director, 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.

In attendance for the Employee Thrift Advisory Council (ETAC) were Chairperson Clifford Dailing, National Rural Letter Carriers' Association; Vice Chairperson James W. Sauber, National Association of Letter Carriers; Judy Beard, American Postal Workers Union; Lee Blackmon, National Association of Government Employees; Ivan D. Butts, National Association of Postal Supervisors; Craig Carter, Federal Managers Association; Andrew R. Corso, Department of Defense; David Ravenelle, United Postmasters and Managers of the United States; Cathy Ball, National Treasury Employees Union; Jessica Klement, National Active and Retired Federal Employees Association; John Seal, Senior Executives Association; Jacqueline Simon, American Federation of Government Employees; Dave Stamey, National Federation of Federal Employees; Todd Wells, Federal Managers Association; and Georgia Thomas, Federally Employed Women, Inc.

Welcome and Introductions.

Acting Chairperson Jones called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:12 a.m. Chairperson Dailing subsequently called to order the Employee Thrift Advisory Council (ETAC) meeting. Acting Chairperson Jones welcomed everyone present to the joint FRTIB/ETAC meeting. The Board members, the Agency leadership, and ETAC members introduced themselves.

1. Approval of the Minutes of the April 27, 2021 Board Member Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the April 27, 2021 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 April 27, 2021 be approved.

2. Approval of the Minutes of the August 24, 2020 ETAC Meeting.

Chairperson Dailing entertained a motion for approval of the minutes of the August 24, 2020 ETAC meeting. The motion was made, seconded, and adopted without objection by the ETAC.

> MOTION: That the minutes of the ETAC meeting held on August 24, 2020 be approved.

3. 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 April 2021" (attached). Mr. Ramos highlighted the increase in April roll-ins, with over 3,600 processed totaling 142 million dollars. This represents the largest single month for roll-ins since January 2020. Post-separation withdrawal totals projected for 2021 are currently 26 percent higher than 2020. Mr. Ramos explained that this may be attributed to an increase in participants reaching retirement age and increased access to their funds since the implementation of the new withdrawal program.

Mr. Courtney highlighted the Office of Communications and Education efforts to educate participants about roll-ins. In February 2021, OCE distributed enclosures with the annual statements of participants over 35 years of age who joined TSP in 2020. The enclosures indicated that participants could roll qualified money into the plan, highlighting the plan's low fees and simplicity. These enclosures were sent to approximately 90,000 participants.

b. Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "April 2021 Performance Review" (attached). Mr. McCaffrey noted that BlackRock's performance for the F Fund exceeded the performance of the Fixed Income Index by four basis points, primarily due to securities lending. Its performance for the C Fund was in line with the Large Cap Index and its performance for the S Fund was in line with the Small Mid Cap Index. BlackRock's performance for the I Fund was ahead of the International Index by nine basis points, primarily due to tax advantage.

Mr. McCaffrey went on to report that 10 percent of the C Fund's assets were transferred from BlackRock to State Street Global Advisors after market close on April 16, 2021. From April 16, 2021 through the end of the month, the total return of the Large Cap Index was -0.07 percent. The portions of the C Fund managed by BlackRock and State Street matched this performance.

He continued explaining that in markets for the month of April, equity investors responded positively to indications of economic strength, including better-than-expected corporate earnings, significant growth in employment, and rapid expansion of manufacturing activity. Although some observers associated these trends with higher inflation expectations, long-term interest rates edged lower. The Federal Reserve left its target short-term interest rate unchanged, citing the ongoing public health crisis. The C and S Funds posted gains. The I Fund also rose, helped in part by a weaker U.S. dollar. The decrease in interest rates contributed to the F Fund's gain. All L Funds finished higher.

Mr. McCaffrey further noted that year-to-date, BlackRock's performance for the F Fund exceeded the benchmark by seven basis points, primarily due to securities lending. Its performance for the C Fund was in line with its benchmark. For the S Fund BlackRock outperformed by six basis points, primarily attributable to securities lending. Its performance for the I Fund was ahead of the benchmark by 15 basis points, primarily due to tax advantage. For the current month through Tuesday, May 25, stocks are mixed. The C Fund is up 0.29 percent. The S Fund is down 2.85 percent and the I Fund is ahead by 3.17 percent. The F Fund also has a gain of 0.41 percent. The G Fund is ahead by 10 basis points.

Mr. McCaffrey next highlighted some Lifecycle Fund statistics. The L Funds now represent over 22 percent of the TSP's total assets. In total, 168 billion dollars was invested in the lineup of ten L Funds as of the end of April. The six newest L Funds (L 2025, L 2035, L 2045, L 2055, L 2060, and L 2065) became available to participants on July 1, 2020. As of April 30, 2021, those six L Funds contained 16.8 billion dollars. He noted that L 2055, L 2060, and L 2065 have experienced significant growth, driven primarily by the automatic enrollment of new Uniformed Services members under the Blended Retirement System (BRS). Participation in the L Funds continues to climb, thanks again to the automatic enrollment of new FERS and BRS participants. As of April 30, over 2.9 million TSP participants had at least some assets in the L Funds, a group representing 47 percent of the TSP participant population. Furthermore, over 1.8 million participants (29 percent of the population), invested 100 percent of their assets in the L Funds. He mentioned that the growing pool of participants invested in the L Funds underscores the importance of ensuring that these funds are thoughtfully designed and announced that later in the meeting there would be a presentation of the most recent L Funds asset allocation review.

Mr. McCaffrey concluded his overview with a comment on interfund transfers, or IFTs. Monthly net IFTs resulted in an inflow of 2.6 billion dollars to the C Fund and an outflow of 3 billion dollars from the G Fund, likely a response to the healthy returns earned by large-capitalization stocks. Although these dollar values may sound large, he noted that for the vast majority of participants, IFTs are the exception, not the norm. This was certainly true in April; fewer than 4 percent of participants moved assets between funds during the month.

c. Legislative Report

Ms. Weaver began with updates on two proposed amendments to the Endless Frontiers Act, which seeks to bolster domestic economic growth in the technology sector and strengthen national security through funding for research and development in areas such as artificial intelligence, quantum computing, and supply chain, semiconductors. Ms. Weaver first discussed Senator Tommy Tuberville's proposed amendment, which seeks to prohibit TSP investment in Chinese-based entities, to include subsidiaries. The amendment would also prohibit any mutual fund offerings in the to-be-implemented mutual fund window from investment in any Chinese based entities. She also noted that Senator Marco Rubio proposed a similar amendment, prohibiting TSP investment in securities listed on exchanges where the Public Corporation Accountability Oversight Board (PCAOB) has not issued an audit inspection or was prevented from conducting such an inspection. Per the PCAOB, China is the only country that meets those criteria.

Ms. Weaver went on to share that FRTIB has communicated its position that both amendments discriminate against TSP participants because neither prohibition would apply to 401(k) plans or IRAs. She also noted that the TSP's current I Fund index includes Hong Kong, which is part of China, and that there is no widely recognized index for developed markets that excludes Hong Kong. As such, to both divest from Hong Kong equities and create a new, specially designed index without Chinese investments would increase costs to all TSP participants. It would also preclude the implementation of the TSP mutual fund window, as monitoring approximately 5,000 mutual funds for any investments in Chinese entities would prove too costly for the plan. Neither amendment was scheduled for vote as of May 26, 2021.

Ms. Weaver also provided an update on the Securing a Strong Retirement Act of 2021, which was introduced in the House Ways and Means Committee in May 2021. The bill, nicknamed SECURE Act 2.0, aims to encourage American savings for retirement. Ms. Weaver noted that the bill has several provisions that impact TSP, of which she highlighted four:

- The required minimum distribution (RMD) age would increase to 73 starting January 1, 2022, 74 in 2029, and 75 in 2032;
- Effective January 1, 2022, all catch-up contributions must be Roth;

- Catch-up contribution limits are increased for those who are 62, 63, and 64 years of age, but not for those who are 65 or older; and
- Defined contribution plan participants can receive matching contributions on a Roth basis.

The SECURE Act 2.0's corollary in the Senate – the Retirement Security and Savings Act – was introduced in May 2021. While it has many similar provisions as SECURE Act 2.0, Ms. Weaver noted that the Senate bill creates an exemption to RMD requirements for participants with less than 100,000 dollars in savings. This would go into effect January 1, 2022. Other provisions of note that would go into effect January 1, 2022 include:

- Exempting Roth balances from RMDs while the participant is alive;
- Permitting rollover of Roth IRAs into Roth 401(k)s;
- Increases the RMD age to 75 in 2032; and
- Increases the catch-up contribution limit to 10,000 dollars for individuals who turn 60 (while leaving the catch-up contribution limit at 5,000 dollars between ages 50 and 60).

Ms. Weaver noted that both the House and Senate bills would require significant programming and effort from payroll offices and FRTIB by January 1, 2022. This effort will be further complicated because the Agency will be transitioning to a new recordkeeper during this time.

Ms. Weaver concluded with an update on Executive Order (EO) 14030, "Climate-related Financial Risk," which calls on the Department of Labor (DOL) to identify actions that can be taken under FERSA to protect Plan funds from the threat of climate-related financial risk and to assess how FRTIB has taken environmental, social, and governance factors into account. For both provisions, DOL must report findings to the White House by mid-November 2021.

ETAC requested a written summary of Ms. Weaver's legislative update, which she agreed to provide. Ms. Simon followed up by sharing the American Federation of Government Employees' (AFGE) position in support of both the RESPOND Act[1] and EO 14030. In response, Ms. Ball – of the National Treasury Employees Union (NTEU) – expressed concern regarding the RESPOND Act and how its requirement to eliminate certain types of investments may contravene FERSA's mandate that FRTIB administer TSP solely in the interest of participants and beneficiaries. Ms. Weaver explained FRTIB's position opposing the RESPOND Act, which would require the establishment of a TSP climate choice stock index fund if the

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[1] Restructuring Environmentally Sound Pensions in Order to Negate Disaster Act of 2021 ("RESPOND Act"), S. 606, 117th Cong. (2021). The RESPOND Act calls on the Federal Reserve and the Securities and Exchange Commission to issue an annual report to Congress projecting and accounting for the economic costs caused by the impacts of climate change. The Act also seeks to require FRTIB to establish a federal advisory panel on climate change economics, which would explore, *inter alia,* investment options with certain environmental goals. As of March 4, 2021, the RESPOND Act was read twice and referred to the Committee on Homeland Security and Government Affairs.

Board decides against divesting from high carbon investments. The limited options of divestment or creating a new fund that overlaps with other TSP funds is not a good strategy for plan participants. Ms. Weaver went on to highlight the forthcoming TSP mutual fund window, which will allow participants to invest in funds of their choosing. Ms. Simon clarified that AFGE's support of the RESPOND Act was driven by the Act's requirement for a formal study of the impact of fossil fuel investments on rates of return in TSP, adding her agreement that creation of a climate choice stock index would be a deviation.

4. <u>Quarterly Metrics Report</u>.

Mr. Dennis McNulty, Office of Enterprise Planning (OEP), provided an overview of the Fiscal Year (FY) 2021 2nd Quarter Metrics. <u>See</u> "FY21 Q2 Board Metric Report" (attached). Mr. McNulty shared progress made across strategic goals A, B, C, and D, noting that all metrics were above the threshold. He discussed the technical issues that mitigated progress toward achieving certain target metric rates.

5. <u>Quarterly Metrics Report</u>.

Mr. McCaffrey presented the multi-asset manager update. <u>See</u> "Multi-asset Manager Update for Board – May 2021" (attached). The transfer of portions of the C, S, and F Funds from BlackRock to State Street Global Advisors continues. After market close on May 14, 2021, approximately 20 percent of the S Fund's assets – a tranche containing roughly 21 billion dollars in securities and cash – was transferred from BlackRock to State Street. After the initial allocation and on an ongoing basis, the net flows into or out of the S Fund are split each day 80/20 between BlackRock and State Street to maintain the desired allocation between each manager. Likewise, both managers report daily earnings on their respective holdings, and those earnings are consolidated by OCFO to establish the daily share price for the S Fund.

Mr. McCaffrey noted that these processes are invisible from the perspective of the participants. Those who invest in the C and S Funds, either directly or by way of the Lifecycle Funds, will not see any distinction between the assets managed by BlackRock and those managed by State Street. Just as they did before the transfers, the C and S Funds will each have one share price and one set of returns.

Mr. McCaffrey concluded his update by sharing that the next major milestone will be the transfer of approximately 20 percent of F Fund assets from BlackRock to State Street. Transferring fixed income holdings is more complicated than transferring equity holdings, so the team deliberately chose to conduct the C and S Fund transfers first.

6. <u>L Funds Study</u>.

Mr. Michael Jerue, Office of Investments (OI), reviewed the L Funds Study. See "2021 L Funds Asset Allocation Review" (attached). He began by sharing that the L Funds are reviewed annually to determine what asset allocation changes would improve expected outcomes for participants in these funds without unreasonably increasing risk. OI engaged Aon consultants to assist with this review. With analysis that considered average TSP participant balances, FERS and Social Security benefits, and an industry standard retirement income adequacy replacement ratio of 70 percent, not including personal savings, Aon concluded that the current L Fund glide path does not need modification. Mr. Jerue concluded by noting that OI recommended one technical change to all L Funds, which would put them on track to have the S Fund represent 20 percent of U.S. equity by 2025, adding that this does not change the glide path nor does it change overall allocation to equity. The Executive Director approved this change, which will take effect July 1, 2021.

7. Retirement Wellness Survey Report.

Mr. McNulty and Ms. Veronica Mance, Office of Enterprise Planning, presented the results of the 2020 Financial Wellness and Retirement Readiness Survey. See "Wellness Survey" (attached). This survey sought direct participant feedback on retirement readiness and financial wellness to gain insights on how to better support participants' retirement goals. The survey was sent to 10,000 participants across three career stages based on age: early career (under 35), mid-career (35 to 49), and late career (age 50) and up, and yielded a 21 percent response rate. Mr. McNulty and Ms. Mance highlighted some key takeaways from the survey results:

- Just over half of participants are satisfied with their current financial condition;
- FERS participant satisfaction compares favorably to the private sector;
- The top three debt categories that prevent participants from savings as much as they would like for retirement are mortgage/rent, personal debt, and student loans;
- Overall, 40 percent of participants feel they are not on track to have enough in retirement;
- About 20 percent of participants have little or no emergency savings; and
- Key drivers of participant confidence for retirement are: having an idea of retirement savings needed and using multiple money management practices.

8. Communications and Education Update.

Mr. Courtney presented the communications and education update. See "OCE Board Presentation" (attached). The Office of Communications and Education (OCE) educates participants and beneficiaries and encourages them to take full advantage of TSP through various forms of outreach. OCE is comprised of four teams: Writing and Editing, Multimedia Design, Print-Mail, and Education and Outreach. Due to COVID, OCE transitioned to fully online teaching in 2020. This resulted in 132,000 people taking part in training last year, which is more than double the number of training participants took in 2019. For participants who are unable to attend live webinars, recordings are available online at www.youtube.com/tsp4gov. Mr. Courtney concluded by highlighting changes to the annual statement based on participant feedback, and various emails sent since August 2020.

Next, Ms. Elizabeth Perry updated the Board on OCE's use of behavioral science and research to improve participant outreach. OCE reached out to approximately 50,000 participants last fall who made no contributions during the first nine months of the year. Their average age was 50, and our goal was for them to start contributing. Ms. Perry shared that these participants were sent three different versions of an email message encouraging contributions. Results indicate that overall, the messaging was 30 percent more effective than no outreach regarding contributions.

9. Adjourn.

Before adjournment, Mr. Dailing and Ms. Klement gave thanks to presenters, FRTIB staff, and the Board. Ms. Klement followed up with questions to FRTIB regarding feedback on NARFE's letter regarding Roth in-plan conversions and fund-specific withdrawals. Ms. Weaver acknowledged receipt of NARFE's letter, indicating that FRTIB is in the process of converting to a new recordkeeper, which will also handle the mutual fund window. While neither Roth conversions nor fund-specific withdrawals will be available on day one of the recordkeeper transition, both will be explored further post-transition.

On a vote taken by Chairperson Dailing, the ETAC adjourned at 12:35 p.m.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Acting Chairperson Jones adjourned the meeting at 12:35 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
Acting General Counsel
and Secretary

Attachments

1. Thrift Savings Fund Statistics April 2021
2. April 2021 Performance Review
3. FY21 Q2 Board Metric Report

4. Multi-asset Manager Update for Board – May 2021
5. 2021 L Funds Asset Allocation Review
6. Financial Wellness and Retirement Readiness Survey
7. OCE Board Presentation