Welcome and Introductions.

Acting Chairman 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 September 28, 2021 Board Meeting.

Acting Chairperson Jones entertained a motion for approval of the minutes of the September 28, 2021 Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on September 28, 2021 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 September 2021" (attached). Mr. Ramos highlighted the
continued increase in Roth contributions throughout September, raising the total number of participants with Roth contributions to approximately 31 percent. Mr. Ramos noted that although only 37 percent of participants are uniformed service members, they represent nearly 60 percent of Roth TSP accounts. Accounts held by beneficiary participants continued to trend upward, reaching over 34,000 beneficiary participant accounts.

In response to a question from Member McCray, Mr. Ramos explained that the higher representation of uniformed service members among Roth TSP account holders is likely due to the younger average age of those participants.

b. Legislative Report

Ms. Weaver reported that the defense authorization bill for Fiscal Year 2022 passed the House of Representatives at the end of September with no TSP provisions in it, and there are no TSP provisions in the Senate Armed Services Committee bill. The Senate defense authorization bill will be considered on the Senate floor in November or December.

Senator Patty Murray introduced the RESOURCES Act, which would create a new open season for eligible Blended Retirement System (BRS) members. Ms. Weaver noted that Sen. Murray introduced a similar bill in the previous Congress. In response to a question from Member Jasien, Ms. Weaver stated Sen. Murray introduced the bill due to a perceived uneven percentage of individuals who opted into BRS among the various services and intends to offer a second opportunity to opt in.

3. Quarterly Reports.

a. Investment Policy

First, Mr. McCaffrey reviewed the monthly investment performance report. See “September 2021 Performance Review – G, F, C, S, I and L Funds” (attached). BlackRock’s performance for the F, C, and S Funds was in line with the Funds’ respective indices for the month. Its performance for the I Fund exceeded its index by nine basis points, primarily due to tax advantage. State Street’s performance for the F, C, and S Funds was in line with the respective indices.

In the markets, there was concern about COVID-19, disappointing employment growth, and supply-chain-related shortages. While inflation data was elevated, the increase was less than expected. The Federal Reserve kept its target interest rate unchanged while signaling an intent to moderate its pace of asset purchases in the coming months. Longer-term interest rates rose, contributing to the F Fund ending the month with a loss. The C, S, and I Funds all posted losses in September.
BlackRock’s year-to-date performance for the F fund exceeded the benchmark returns by 19 basis points, primarily due to securities lending. Performance for the C Fund was in line with the respective benchmark. For the S Fund, BlackRock outperformed the respective benchmark by nine basis points, primarily due to securities lending. Its performance for the I Fund was ahead by 24 basis points, primarily due to tax advantage. For the month of October, through the 25th, stocks were showing strength. The C Fund gained 6.08 percent, the S Fund gained 6.19 percent, and the I Fund gained 2.37 percent. The F Fund had a loss of 0.47 percent, while the G Fund gained 0.1 percent. L Fund participation continued to climb, reaching over 3.1 million participants investing at least one dollar in one of the L Funds. Growth was driven largely by automatic enrollment of new participants.

Market volatility appeared to impact interfund transfers during the month of September. Inflows into the G Fund rose to 4.5 billion dollars, while there were elevated net outflows from the two large U.S. stock funds. However, the increase in interfund transfers was in line with historical values, with only 1.9 percent of participants transferring between funds.

Second, Mr. McCaffrey reviewed the quarterly proxy voting and class action settlement reports. An audit of proxy voting found no exceptions to established guidelines during the second quarter of 2021 for both BlackRock and State Street.

For the second quarter class action report, BlackRock began the quarter with 71 open claims. Three claims were opened in the C Fund, and ten claims were opened in the S Fund during the quarter. Overall, 15 claims were settled for an approximate total of 2.1 million dollars, including 14 claims in the S Fund and one claim in the C Fund. Two claims in the S Fund were closed due to administrator action, bringing the total closed claims to 17 for the quarter. Across the four funds, 67 claims remained open at the end of the quarter. Lastly, there was no securities litigation reported for State Street during the quarter.

Acting Chairman Jones entertained a motion to affirm the current investment policies. The Board members 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 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, 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 Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

b. Audit Status

Mr. Brack Boone, Audit Management and Anti-Fraud Division Chief, provided an update of the external audit activity. See “Audit Status/Security & Remediation Status” (attached). Mr. Boone stated that in fiscal year (FY) 2021, fifteen audits were completed and two were in progress. The two open audits are the mid-year financial statement and the FISMA audit, both of which are near completion. All FY 2021 audits scheduled by EBSA were completed by fiscal year end.

Mr. Boone briefly presented seven audit reports, noting that EBSA closed 89 audit recommendations and opened 19 new audit findings. There are 14 open recommendations from prior years and seven audit findings with which the FRTIB non-concurs. Mr. Boone noted that improvements to the non-concur process helped reduce the number of non-concurs.

Mr. Deo reviewed the remediation status for FY 2021, noting that the goal for FY 2021 was to close 49 audit findings. Overall, for the year, the Agency closed 98 audit findings. The auditors added 31 findings, making 116 total remaining audit findings at the end of FY 2021. The auditors closed 179 findings in FY 2021, setting a new record for the most audit findings closed within a fiscal year for the Agency. Mr. Deo reviewed the Agency’s risk-based approach for audit finding remediation, noting that there were no open critical audit findings. Mr. Deo concluded the audit status discussion by showing the open vulnerabilities over time resulting from external scans (NCATS). The Agency has never had a critical or high vulnerability, while medium and low findings are kept at a manageable threshold. Acting Chairman Jones and Member Jasien congratulated the Agency for the yearly audit closure results.

c. Budget Review

Ms. Crowder reported on the fourth quarter budget update. See “Quarterly Budget Review” (attached). The Agency executed approximately 94 percent of the fourth quarter (Q4) targeted spending plan. As of Q4, the Agency executed roughly 89 percent, or 443.7 million dollars, against the overall budget of 498.4 million
dollars, reflecting a 54.7 million dollar balance as of September 30. Out of the 443.7 million dollars executed, 75 percent was executed to support recordkeeping operations, maintenance, and transition to the new recordkeeping system.

Ms. Crowder reviewed the five-year annual net and gross administrative expense ratio and estimated the gross expense ratio for calendar year 2021 would be approximately 5.9 basis points or less. The budget-to-asset ratio in calendar year 2020 was 6.2 basis points; however, the Agency did not spend 100 percent of the budget in calendar year 2020. The actual gross administrative expense fee for 2020 was only 5.9 basis points.


Ms. Crowder introduced Mr. Thomas Rey from Clifton Larsen Allen (CLA), who discussed the mid-year financial statement review. See “CLA Mid-Year Review” (attached). The midterm review covered the Thrift Savings Fund financial statements for the six months ending June 30, 2021. Mr. Rey stated that they were not aware of any material modifications that should be made to the financial statements prepared by management to be in conformity with generally accepted accounting principles. Mr. Rey did not express an opinion on internal controls. Mr. Rey concluded his presentation by summarizing prior recommendations.

5. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided the internal audit update. See “Internal Audit Update” (attached). Ms. Holmes reviewed the status of the 2021 internal audit plan, noting that all six planned audits were completed. Ms. Holmes reported that the 2022 and 2023 internal audit plans are in draft form and revealed the tentative internal audit plan calendar for year 2022 and 2023. The internal audit plans for calendar years 2022 and 2023 will be presented to the Board before the end of the current calendar year.

6. Converge Update.

Mr. Ramos provided an update on Converge. See “Converge Update” (attached). Mr. Ramos reported that Converge remains on track for the scheduled go-live date and all key milestones to date were achieved as scheduled. The current focus is on upcoming milestones associated with the authorization to operate (ATO), the full-load conversion test of non-anonymized data, and kicking off participant communications. The ATO is used by management to review, validate, and authorize key security controls for the Converge information system. The ATO submission is expected by the end of November and will go through a nearly three-month review process. The first non-anonymized data conversion test will run from December
through early February, followed by a series of conversion tests that will continue through April 2022. This test and a subsequent test in April allow the FRP to test the conversion strategy and approach. Participant communications regarding the Converge transition kick off in early 2022. Initial information will be included in the annual letter from the Executive Director and a series of outreach campaigns will continue through the go-live date to share pertinent information with participants.

Mr. Tanner Nohe, Program Manager, provided a detailed status of Converge and highlighted new features coming to the TSP next year. Agency engagement with payroll offices was progressing well and changes were minimized for payroll offices to facilitate the transition. Initially, each agency must sign an interconnection security agreement (ISA) and all but one ISA is in place. After the ISAs are in place, connectivity testing commences. Of the 19 agencies, eight have already completed a connectivity test and the rest are scheduled over the next week. Memoranda of Understanding (MOU) are needed to allow users with the payroll agencies to access the new payroll portal. There was a total of approximately 92 MOUs out for review and signature. As of two weeks ago, 50 of those MOUs were signed, with additional MOUs expected in the coming days.

Mr. Nohe reviewed new features and functions coming next year as part of the Converge implementation. New channels for participant communication will include a new mobile application, a virtual assistant, and a live virtual chat. The virtual assistant will be available to participants 24 hours a day, seven days a week, whenever they log onto the website. The virtual chat will link participants to a live representative and personalize hand-offs if the participant requires a phone conversation. The mobile application will provide easy access to My Account functionality for participants, enabling retirement services on the go. Additionally, e-signatures and online forms for the on-the-go services will enhance digital engagement with participants.

Mr. Nohe provided an overview of improvements to services related to the Converge transition including a new concierge service for rollovers, the ability to scan checks, an address locator service to find participants who are difficult to contact, and improvements to loans. For loans, an additional loan option will be added, separated participants will be permitted to make monthly payback payments, and there will be a direct debit feature for non-payroll loan rebates. Mr. Nohe reviewed several improvements related to the mutual fund window, including a screening tool that participants can use to search and filter for different types of mutual funds for potential investment as well as a dedicated contact center and space on the website. In response to a question from Member Jasien, Mr. Nohe noted that there will be a fee associated with the use of the mutual fund window option.

Mr. Nohe provided an overview of enhanced participant account security and new features increasing cybersecurity, including improvements to identity verification and fraud prevention. For identity verification, there will be a new multi-factor authentication service to verify a participant’s identity. New fraud detection tools and practices will be implemented to highlight suspicious activity through operational
review while simultaneously minimizing the participant impact. Additional authentication measures will be introduced for transactions that pose a high risk of fraud and an account lock feature will be added. Lastly, biometric features present on mobile devices, i.e., facial recognition and fingerprint locks native to a device, will enhance the security of TSP access via mobile devices. In response to a question from Member Jasien about whether voice recognition would be included in the biometric features, Mr. Nohe stated it would not be available at go-live but is on the radar for future integration.

Mr. Nohe reviewed the developing cutover and blackout periods that will occur due to the go-live transition. The impacts are currently being identified and a target date for completion of the plan is set for later in the year. Member Bilyeu asked if contact center staffing levels were considered in relation to potential increased outreach from participants when the cutover and blackout occur. Mr. Nohe indicated that staffing levels and call volumes are a consideration of the developing plan. Additionally, the Converge team expects outreach communications prior to any disruption in service to alleviate potential issues.

Due to the new security measures on TSP.gov, all participants will need to establish new login credentials when they first log into the My Account portion of the website. This process will involve creating a username, a password, and multi-factor authentication. The new login will provide a view of all accounts, including uniformed services accounts, beneficiary accounts, and civilian accounts.

Mr. Nohe concluded by discussing the communications strategy for the new features, changes, and blackouts discussed previously. The Executive Director’s annual letter, sent in the beginning of the calendar year, will include Converge-related details and act as the kick-off for participant communication, with several phases of additional information to follow.

7. Adjourn.

On a vote taken by the Acting Chairperson, the members closed the meeting at 11:08 a.m. for executive session.

At 12:29 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 12:29 p.m.
MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics September 2021
3. Audit Status/Security & Remediation Status
4. Quarterly Budget Review
5. CLA Mid-Year Review
6. Internal Audit Update
7. Converge Update