



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

December 14, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on December 14, 2023, at 10:00 a.m., Eastern Standard Time. The meeting was held virtually and was open to the public. In attendance were Dana K. Bilyeu of Oregon, member; Leona M. Bridges of California, member; Stacie Olivares of California, member; Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer; Thomas Brandt, Chief Risk Officer; and Trevor Williams, Chief Financial Officer.

1. Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:02 a.m. and welcomed everyone present to the meeting.

2. Approval of the Minutes of the November 14, 2023, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the November 14, 2023, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on November 14, 2023, be approved.

3. Monthly Reports.

Mr. Deo then gave opening remarks and provided a summary of the agenda.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See "Participant Activity Report" (attached). He reported that the Agency posted its end-of-year processing schedule and highlighted two dates: (1) any remaining 2023 Required Minimum Distribution (RMD) balances will be posted on December 20th; and (2) withdrawals processed through December 27th will be reported as income for 2023.

Mr. Courtney also reported that in 2024, the annual elective deferral limit will increase to 23,000 dollars, while the catch-up limit remains unchanged at 7,500 dollars. The Agency has updated its materials to reflect this change.

In addition, beginning in 2024 and because of SECURE 2.0, Roth balances will no longer be subject to RMDs prior to a participant's death. The RMD calculation for 2024 will only include traditional balances, and only distributions from traditional balances will count towards satisfying the RMD amount. Last month, the Agency did a targeted outreach to the nearly 7,000 participants affected by this change, providing awareness ahead of the January RMD notice.

b. Investment Review

Mr. McCaffrey reviewed the monthly performance relative to benchmarks for the Thrift Savings Plan's (TSP's) investment managers. See "November 2023 Investment Program Review" (attached).

For BlackRock, the November F and C Fund performance was in line with the Funds' respective indices. Their S Fund performance was ahead of the Small Mid Cap Index by 19 basis points, primarily due to the beneficial effect of a cash-and-stock acquisition of VMware, one of the Fund's top holdings. Their I Fund performance lagged the International Index by 78 basis points, primarily due to fair value pricing.

For State Street, the November F and C fund performance was also in line with the Funds' respective indices. Their S Fund performance exceeded the Small Mid Cap Index by 20 basis points, primarily due to the same VMware acquisition described above. Finally, their I Fund performance lagged the International Index by 54 basis points, primarily due to fair value pricing.

Mr. McCaffrey's November 2023 Market Commentary indicated that the Federal Reserve elected not to change its target short-term interest rate in its November rating, citing moderate employment growth and potential impact of tighter financial and credit conditions. Further, a cooler-than-expected inflation report sparked optimism that further rate hikes are not imminent. Longer-term rates also declined significantly, fueling investor appetite for equities. The C and S Funds posted substantial gains. The I Fund also rose sharply, thanks in part to the weaker United States dollar. The decrease in interest rates contributed to a gain in the F Fund. All L Funds finished higher.

Regarding year-to-date performance under BlackRock management, the F Fund exceeded its index by 20 basis points, due primarily to a difference in the timing of year-end pricing for the index versus the manager's pricing; the C Fund was in line with the Large Cap index; the S Fund outperformed the Small Cap Index by 33 basis points, due primarily to securities lending and the VMware acquisition described above; and the I Fund outperformed its index by three basis points, primarily due to tax advantage.

Regarding year-to-date performance under State Street, the F Fund was ahead of its index by 20 basis points, primarily due to the year-end pricing difference; the C Fund was in line with the Large Cap Index; the S Fund's performance exceeded its index by 29 basis points, due primarily to securities lending and the effect of the cash-and-stock acquisition of VMware; and finally, performance of the I Fund was ahead of its index by 42 basis points, primarily due to tax advantage.

As of market close on Wednesday, December 13, 2023, the C Fund gained 3.09 percent for the month-to-date, the S Fund gained 6.54 percent, and the I Fund increased 2.57 percent. The F Fund showed a positive 2.51 percent, and the G Fund earned 0.16 percent.

c. Legislative Report

Mr. Deo provided the Legislative Report. He stated that the Senate passed the 2024 National Defense Authorization Act yesterday by a vote of 87 to 13 and there are no provisions of concern to the FRTIB. The House of Representatives will vote on the Defense Authorization Bill under a suspension of the rules, which requires a two-thirds vote of those present and voting. The House of Representatives plans to go out of session on December 14, 2023, and return on January 9, 2024. The Senate is seeking agreement on a Ukraine/Israel/border security package, and will also return January 9, 2024.

Funding for agencies covered by Agriculture, Energy, Housing and Urban Development, Transportation, and Veteran's Affairs appropriations bills runs out on January 19, 2024. All other departments and agencies are currently funded through February 2, 2024.

4. Quarterly Vendor Risk Management Report.

Mr. Brandt provided an overview of the Agency's Quarterly Vendor Risk Assessment for the 3rd Quarter of Calendar Year (CY) 2023. See "Quarterly Vendor Risk Assessment – 3rd Quarter CY 2023" (attached). Mr. Brandt reported that having analyzed various sources of data and evaluated metrics to assess solvency, liquidity, and profitability for five critical vendors, that all vendors are able to fulfill their contractual obligations to the Agency. The Quarterly Vendor Assessment to the Board members and the Executive Director of the FRTIB provides more detail on the results of the analysis for the 3rd quarter of CY 2023. Chair Gerber commended the team for using a summary chart of the risk assessment findings to make the results easy to understand.

5. Semi-Annual Financial Statement Review.

Mr. Williams introduced Michele Chalmers from CliftonLarsonAllen (CLA) to present the semi-annual financial statement review. See "CLA Semi-Annual Review" (attached). This review covered the Thrift Savings Fund financial statements for six months ending on June 30, 2023. Ms. Chalmers stated that CLA is not aware of any

material modifications needed for the financial statements prepared by Agency management to be in conformity with generally accepted accounting principles. CLA's review did not express an opinion on the Agency's internal controls. Ms. Chalmers concluded by discussing CLA's plan for the calendar year-end 2023 financial statement audit.

6. 2024 Board Meeting Calendar.

Mr. Deo provided the dates for the 2024 Board meeting calendar for review. The Board meeting is normally on the fourth Tuesday of every month with exceptions in May, November, and December to accommodate holidays.

7. Social Science Update.

Elizabeth Perry, Chief Scientific Advisor, provided the social science update. Dr. Perry explained that behavioral science uses a mix of psychology, behavioral economics, and neuroscience to understand individual decision-making in the real world. While there is a long list of insights from this research, Dr. Perry focused the conversation on four: repetition, temporal reframing, peer influence, and framing.

Regarding repetition, Dr. Perry explained that one meta-analysis suggests that ten repetitions spaced out is the ideal number of times to repeat a message. The phrase "don't leave free money on the table" is a common one in the retirement industry, and Dr. Perry's team conducted focus groups to test its effectiveness, among other topics. They learned that, generally, while those that had heard it before seemed to appreciate the familiarity, those who had not expressed some concerns. Dr. Perry determined that the message needs to be placed into context, including clear steps for what participants can do if they want to contribute more.

Dr. Perry next shared that temporal reframing research in financial decision-making has found that recasting large expenses as smaller daily expenses can help reduce perceived loss. For example, when savings account users were presented with options for making an initial deposit, four times as many people were interested when the deposits were framed in daily terms, *i.e.*, five dollars a day, compared to monthly terms, *i.e.*, 150 dollars per month. These are essentially the same amounts, but changes to the wording eliminated the participation gap between lower and higher income participants.

Dr. Perry explained that researchers have long studied whether knowing what our peers are doing can affect our own actions. She shared that while peer influence has been effective in many areas, it appears to be less reliable in the financial realm, where multiple studies have found that comparing people makes no difference or backfires.

To test these first three insights, Dr. Perry's team reached out to roughly 10,000 federal employees who were in the lower 20 percent of salary for their payroll

system, had an email address on file, and were contributing three percent of their salary to their TSP, which meant they were below the full-match threshold of five percent. The team sent three versions of an email message, each based on one of these three insights, with a goal to help people increase their contributions. A fourth group received no email at that time. All emails pointed out the benefits of getting the match and provided clear action steps that participants could take to make a change, if desired. All messages also addressed potential barriers, such as providing the participants with a phone number for their payroll system's help desk in case they did not have their password.

The first group's message stated that for someone earning 50,000 dollars annually, five percent is about seven dollars per day and could lead to thousands of dollars in matching each year. The second group's message stated that more than 80 percent of federal employees contribute enough to get the full match. The third group's message included the phrase, "don't leave free money on the table." After three months, contributions from groups one through three were significantly higher than the fourth group that did not receive an email. It was unclear which of the three approaches was most successful, though the "dollars per day" message appeared to be leading. The average increase was about 80 dollars per month, resulting in roughly an additional 40,000 dollars if that amount is maintained through age 65 (based on median ages).

Dr. Perry next discussed the fourth insight, framing, or talking about a single concept in multiple ways. She noted recent work, which found that talking about contributing pennies of every dollar that someone earns to their retirement account is more effective than talking about contributing a percentage of earnings. The "pennies per dollar" language reduced gaps between those with lower and higher incomes. To test this, Dr. Perry's team reached out to almost 1,000 federal employees who were in the lower 20 percent of salary for their payroll system, had an email address on file, and were contributing three percent of their salary to their TSP. One version of the email sent talked about five percent contributions and the other talked about five pennies per dollar. After three months, Dr. Perry's findings were that the percent message was extremely effective, while the pennies message showed little difference. The average increase in contribution for those that received the percent message was about 79 dollars per month, resulting in roughly an additional 50,000 dollars if that amount is maintained through age 65 (based on median ages). Over the past few years, Dr. Perry's team has reached out to almost 90,000 participants who are not getting the full match, and nearly one quarter of them increased their contributions, resulting in an estimated 150 million dollars more saved by participants.

Dr. Perry concluded her presentation by summarizing the work her team has done implementing the spillover program and sharing a chart with the Board that shows catch-up contributions increasing since that implementation. She also expressed gratitude for Member Bilyeu's suggestion that the Agency emphasize that small, incremental changes could help participants who currently contribute three percent of their salary to increase their contributions to five percent.

8. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chair Gerber adjourned the meeting at 10:41 a.m.

MOTION: That this meeting be adjourned.

Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Participant Activity Report November 2023
2. November 2023 Investment Program Review
3. Quarterly Vendor Risk Assessment – 3rd Quarter CY 2023
4. CLA Semi-Annual Review
5. 2024 Board Meeting Calendar
6. Social Science Update