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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 24, 2023

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 24, 2023, at 10:00 a.m., Eastern Daylight Time. The meeting 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; Kimberly A. Weaver, Director, Office of External Affairs; Susan Crowder, Chief Financial Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer; and Thomas Brandt, Chief Risk Officer.

Welcome and Introductions.

Chair Gerber 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 December 20, 2022, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the December 20, 2022, Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on December 20, 2022, be approved.

2. Monthly Reports.

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

a. Participant Activity Report

Mr. Courtney presented the monthly Participant Activity Report. See “Thrift Savings Fund Statistics December 22” (attached). He reported that the Thrift Savings Plan (TSP) ended 2022 with 6.75 million participants, a net increase of 250,000 from last year. The FERS and active-duty uniformed service participation rates ended at 94.4 percent and 83.2 percent respectively.

Mr. Courtney reported that after several months of decline, the calls to the ThriftLine increased by six and a half percent in December. The call volume was up in

January, and he expects the traditional busy season for the contact center to last through April.

Mr. Courtney advised the Board of an unexpected shutdown of a key Treasury system on January 14, 2023. This shutdown does not impact the TSP's ability to issue disbursements to participants, but it does impact the ability to check the status of payments, make a request to stop payments, and issue replacement payments. There is not a workaround for this outage, which Treasury estimates will last up to three weeks. Mr. Courtney anticipates some additional lag time to get things working after the Treasury system comes back online.

Mr. Courtney then discussed the SECURE 2.0 Act, which was signed into law on December 29, 2022. The Act contains provisions for retirement plans beyond the original SECURE Act of 2019. Of the 90 new provisions, 42 are relevant to the TSP. The effective dates for the new provisions pertinent to TSP range from January 1, 2023 through 2033.

FRTIB immediately implemented a mandatory provision of the Act that increased the Required Minimum Distribution (RMD) age to 73. This provision impacted approximately 37,000 people turning 72 years of age in 2023, and the TSP is sending them notices of the change. For participants and spousal beneficiaries turning age 73 and older in 2023, the TSP mailed RMD calculation notices in January as usual. Mr. Courtney referred the Board members to his presentation (attached) for a summary of the provisions that the TSP is currently working to implement and those it will be required to implement in the years to come. He reported that the Agency is reviewing the optional provisions to determine which provisions will most benefit the participants and beneficiaries.

Member Bilyeu asked about the reason for the increase in post-separation withdrawals in 2022. Mr. Courtney said that while he would work to provide a more specific answer, these withdrawals will generally trend upward as the population of TSP participants ages. Mr. Brandt added that the Office of Planning and Risk is studying this data, and it appears that one of the factors contributing to the larger increase in 2022 is that a tranche of Blended Retirement System participants have reached four years in the military, and as they are leaving duty, some are withdrawing their TSP contributions.

b. Legislative Report

Ms. Weaver reported that there have been several changes to the House Oversight Committee. The name has changed to the House Oversight and Accountability Committee and the chairman is Congressman James Comer from Kentucky. The ranking member is Congressman Jamie Raskin from Maryland. The subcommittees, chairs, and rankings are currently still being discussed. Senator Gary Peters remains the Senate oversight chairman and the new ranking member is Senator Rand Paul of Kentucky. Again, the subcommittees, chairs, and rankings are under discussion. The House has re-introduced several bills that would allow members to opt out of the FERS defined benefit but continue to participate in the TSP. Currently, if someone opts out of the FERS defined benefit, they must stop participation in the TSP.

In response to a question from Chair Gerber about the debt ceiling extraordinary measures, Ms. Weaver explained that Treasury will soon provide a letter to the TSP indicating that they will suspend investing in the G Fund securities, but this will not have an impact on TSP participants.

3. Quarterly Reports.

a. Budget Review

Ms. Crowder provided the quarterly budget update. See "FY 2023 1st Quarter Budget Review" (attached). The Agency budget for FY 2023 is 481.4 million dollars. First quarter spending analysis shows the Agency is behind its budget projections by allocating 73 percent of the budget, or 256.6 million dollars, relative to the first quarter spend plan of 353.7 million dollars. The Agency executed 53 percent of the total FY 2023 budget in the first quarter, 81 percent of which was spent to support both recordkeeping operations and communications. The burn rate is slightly ahead of last year because the Agency funded the vast majority of its large contracts at the beginning of the year. Ms. Crowder expects the budget allocation to be back in alignment by mid-year.

b. Audit Status

Ms. Crowder reviewed the quarterly external audit and remediation status. See "Quarterly External Audit – Remediation Status January 2023" (attached). Ms. Crowder reported that at the end of the first quarter, nine of the 13 planned external audits are in progress. Three of the remaining four audits will begin by the end of January.

Ms. Crowder explained that there are four broad categories in FY 2023 covering 13 planned external audits: nine align with EBSA, one aligns to GAO, one aligns to FISMA covering fiscal year 2023, and two align to CLA financial audits and review that will cover the calendar year 2022 audit and the midyear 2023 review.

Regarding remediation efforts, Ms. Crowder reported that the target for FY 2023 is to close 29 open recommendations. During the first quarter, the Agency closed six audit recommendations from various audits. During the first quarter, the external auditors have closed three recommendations from the FY 2022 FISMA audit. The external auditors roughly reflect 234 audit recommendations remaining open. At the end of the first quarter, the Agency reflects 69 recommendations remaining open. The delta between the two viewpoints is the timing of each entity's review of the closure packages, as the external auditors do not review the recommendations until the next time they perform the same audit.

In response to a question from Member Bilyeu, Ms. Crowder noted that EBSA is currently performing an audit to review the status of recommendations in light of the recent changes the Agency has undergone, and this will give the Board and Agency a new baseline of open recommendations.

c. Investment Performance and Policy

Mr. McCaffrey reviewed the monthly investment performance report. See "December 2022 Investment Program Review" (attached). For the month of December, BlackRock's performance for the F Fund lagged the Fixed Income Index by 18 points primarily due to a difference in the timing of pricing by the index provider and BlackRock on the month's last trading day. Performance for the C and S Funds was in line with the Funds' indices. Finally, BlackRock's performance for the I Fund underperformed the International Index by 188 basis points primarily due to fair value pricing.

For State Street in December, the F Fund underperformed the Fixed Income Index by 20 basis points primarily due to the difference on the timing of pricing by the index provider and by the manager on the final trading day of the month. The C and S Funds performed in line with their respective indices.

Mr. McCaffrey provided a performance update on the transfer of assets mentioned in the December Board meeting. The transfer occurred after the market closed on December 9 when BlackRock transferred 20 percent of the I Fund assets to State Street. From that point to market close on the final trading day of the month, the International Index fell 1.72 percent. The I Fund assets managed by BlackRock fell 1.1 percent over that period, and the I Fund assets managed by State Street fell 1.3 percent. The differences between the managers' returns and the Index's returns were primarily driven by fair value pricing. Similarly, the difference in the performance of BlackRock and State Street resulted primarily from differences in the two managers' methodologies for fair value pricing.

Mr. McCaffrey noted that December's market focus continued to be inflation, Federal Reserve policy, and possibilities for an economic slowdown. The Federal Reserve and other central banks raised their interest rate targets, a continuation of their efforts to restore price stability. The C, S, and I Funds posted losses, though the I Fund was supported some by declines in the dollar. The F Fund also declined largely due to rising interest rates. All L Funds finished lower.

Mr. McCaffrey next reviewed BlackRock's full year performance for 2022. Primarily due to securities lending, Blackrock's performance for the F Fund was ahead of the Fixed Income Index's return by 31 basis points, its performance for the C Fund outperformed the Large Cap Index by three basis points, and its performance for the S Fund exceeded the Small Mid Cap Index's return by 34 basis points. BlackRock's performance for the I Fund was ahead of the International Index by 59 basis points, primarily due to tax advantage.

State Street's full year performance for the F Fund lagged the Fixed Income Index's return by eight basis points, primarily due to a difference in the timing of the pricing by the index provider and by State Street on the final trading day of the month. Its performance for the C Fund matched the Large Cap Index. Its performance for the S Fund outperformed the Small Mid Cap Index by 29 basis points, primarily due to securities lending.

Mr. McCaffrey noted the stock markets are holding gains in January. Through Monday, January 23, 2023, the C Fund is ahead 4.78 percent, the S Fund is ahead 8.25 percent, and the I fund is better by 7.92 percent. Fixed Income is also having a better month, as the F Fund is up by 2.84 percent and the G Fund has earned 0.25 percent.

During December, participation in the L Fund continued to see growth of over 20,000 participants, largely due to the L Funds being the default investment for new TSP enrollees. Mr. McCaffrey also noted that net interfund transfers remained very low for December despite losses in the US equity markets.

Regarding the quarterly updates, Mr. McCaffrey began with proxy voting. An audit of BlackRock's proxy voting conducted by ISS found no exceptions to its established guidelines during the third quarter of 2022. Likewise, an audit of State Street's proxy voting found no exceptions to the firm's established guidelines for that same period.

Mr. McCaffrey next discussed class action settlements for the third quarter of 2022. For BlackRock, the quarter began with 94 open claims. During the quarter, 16 new claims were opened. Fourteen claims were settled for a total of 2,871,242 dollars. Of these, four claims in the C Fund were settled for a total of 2,115,439 dollars and 10 claims in the S Fund were settled for a total of 755,803 dollars. Three claims in the S Fund were closed due to administrator action. The total claims closed during the third quarter was 17. Additionally, residual payments from two previously closed claims in the C Fund and eight previously closed claims in the S Fund yielded a total of almost 33,000 dollars. The total settlement proceeds for the quarter were 2,904,136 dollars, and 93 claims remained open at the end of the quarter.

For State Street, four claims were open at the start of the quarter. Three additional claims were opened, and three claims were closed due to administrator action. Thus, four claims remained open at the end of the quarter.

Chair Gerber entertained a motion to continue the current policies for the G, F, C, S, and I Funds. The following motion was made, seconded, and adopted without objection:

> MOTION: That the current investment policies for the G, F, C, S, and I Funds are affirmed without change.

Member Bilyeu asked whether increased participation in the L Funds had an impact on the low rate of inter-fund transfers during bad markets. Mr. McCaffrey said he was tempted to say yes but would like to double check the data on that. Mr. McCaffrey agreed that anecdotally that was likely the case, as participants in L Funds have set their long-term asset allocation. Mr. Deo also noted some increase in interfund transfers, though still low overall, during periods of market volatility last year, which could mean that those who wanted to move their money did so earlier.

4. Annual Expense Ratio Review.

Ms. Crowder presented the annual review of TSP administrative expenses for 2022. See "2022 TSP Annual Review of Administrative Expenses for 2022" (attached). Ms. Crowder began by noting that administrative expenses are spread over the entire calendar year. In calendar year 2022, the average net assets totaled 742 billion dollars, a 21 billion dollar decrease from 2021. The gross administrative expenses for calendar year 2022 were 502 million dollars, an increase of 101 million dollars. Total forfeitures and loan fees collected in 2022 offset the Agency's gross administrative expenses by 73 million dollars, resulting in a net administrative expense of 429 million dollars. Ms. Crowder noted that as of June 1st, the loan fees no longer offset the administrative fees due to the new recordkeeping contract. The 2022 gross and net administrative expense ratios were 6.8 and 5.8 basis, respectively. TSP ended 2022 with a positive net cash flow of 7.5 billion dollars.

5. Federal Employee Viewpoint Survey (FEVS) Update.

Ms. Goethe presented the results of the FEVS for 2022. See "2022 FRTIB FEVS Results" (attached). The Office of Personnel Management (OPM) conducts the FEVS annually with the intent to gauge government-wide perceptions of employees on their organization, workplace, work unit and leadership. In 2022, 64 percent of FRTIB employees responded and completed the survey. Ms. Goethe noted positive responses that are 65 percent or higher are considered strengths and in 2022, FRTIB had 71 strengths. Questions with negative responses at 35 percent or higher are considered challenges, and for the past three years, FRTIB has had no challenges. The FEVS indicators for the core questions were performance confidence, employee engagement, and global satisfaction. In 2022, OPM also added 12 questions to gauge diversity, equity, inclusion, and accessibility (DEIA). OPM continued to ask COVID-19 questions.

Ms. Goethe reported that the Agency's overall positive response rate for the four categories related to performance confidence was 89 percent. This number has remained high over the last three years. Next, the overall confidence rating for the newly introduced DEIA index was 76 percent. In response to comments from Chair Gerber, Ms. Goethe noted it may be too simplistic to assume a quarter of FRTIB employees believe FRTIB does not have an equitable work environment and offered to provide a breakdown of the questions asked.

Ms. Goethe reported that the overall employee engagement index was 76 percent positive. This category has remained constant with 77 percent in 2021 and 2020. The overall global satisfaction index had a 70 percent positive response rate. The questions on the global satisfaction category addressed employees' satisfaction with their job, the pay they receive, the Agency and whether the employee would recommend the Agency as a good place to work.

Ms. Goethe next reported on a more in-depth view of the employee engagement Index. This index is important because it is used to determine the Agency's rank as a great place to work, based upon the Agency's size. There are three categories surveyed: leaders lead, supervisors, and intrinsic work experience. The positive responses for all three categories have largely remained consistent for the past three years. Ms. Goethe noted that FRTIB's positive response rate for the supervisor category is higher than the government-wide positive response rate.

Ms. Goethe reported the results of the COVID-19 questions, which focused on Agency leadership's response to the pandemic. Ms. Goethe noted the question that addressed how well supervisors supported efforts to stay safe and healthy while working had a high positive response rate of 90 percent. This rating was consistent for three years and was much higher than the government-wide response. The positive response rate regarding the Agency's senior leaders supporting policies and procedures to protect employees has been consistently at 63 percent. The other questions regarding COVID-19 have consistently had positive response rates that are higher than the government-wide rate.

Ms. Goethe next turned to the Agency-specific questions regarding FRTIB's core values, for which positive response rates were high. She concluded by explaining the ways that the Agency communicates the FEVS results to FRTIB employees and uses the results to improve the Agency. She highlighted that in FY 2023, the Agency began conducting pulse surveys to continually gain feedback from employees.

6. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided an internal audit update. See "Internal Audit Update" (attached). Ms. Holmes reported the audits in the 2022 Internal Audit Plan were complete. Since the last Board meeting, her team completed the Treasury Reconciliation Oversight Audit and the OEA file review. They are finalizing the report for the Decommissioning of Legacy Assets Audit.

Ms. Holmes next presented a draft 2023 Internal Audit Plan, which includes audits that were slated for 2022 and moved to 2023. The dates of the scheduled audits may change subject to office availability or may be adjusted if areas of higher risk emerge.

Chair Gerber entertained a motion to approve the 2023 Internal Audit Plan. The following motion was made, seconded, and adopted without objection:

> MOTION: That the proposed 2023 Internal Audit Plan as presented to the Board on January 24, 2023 be approved.

Ms. Holmes next reported on the Treasury Reconciliation Oversight Audit, which she added at the request of the Chief Financial Officer (CFO). The scope period was June 1 through November 30, 2022. The Internal Audit team issued two notices of findings and recommendations (NFRs). The applicable program offices agreed to the NFRs and will create a corrective action plan to remediate the findings.

Internal Audit completed its review of the Office of External Affairs file plan and will move on to the Office of Technology Services next.

Ms. Holmes shared the status of internal audit findings. Six are open, of which two are from the Treasury Reconciliation Oversight Audit. She noted that other activities include completing the Decommissioning of Legacy Assets Audit report, developing the 2023 Audit Plan and issuing a call order for work under it, awarding a call order for 2023 FISMA audit, and updating the Internal Audit charter, which included minor changes shared with the Board.

Chair Gerber entertained a motion to adopt the revisions to the Internal Audit charter. The following motion was made, seconded, and adopted without objection:

> MOTION: That the Board adopt the revised Internal Audit Charter containing amendments to provisions regarding Responsibility & Accountability and Scope, which was presented to the Board on January 24, 2023.

In response to a question from Member Bilyeu, Ms. Holmes explained that she develops the Internal Audit Plan by consulting EBSA's audit plan, examining the Agency's enterprise risk and internal controls work, considering what areas are of highest risk for the Agency, and discussing with Agency leadership, including the CFO, Director of External Affairs, and Chief Risk Officer.

7. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 11:14 a.m. to enter into executive session.

At 1:33 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 Chair Gerber adjourned the meeting at 1:33 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Thrift Savings Fund Statistics December 2022
2. FY 2023 1st Quarter Budget Review
3. Quarterly External Audit – Remediation Status January 2023
4. December 2022 Investment Program Review
5. 2022 TSP Annual Review of Administrative Expenses
6. 2022 FRTIB Federal Employee Viewpoint Survey Results
7. Internal Audit Update