MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 28, 2025

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 28, 2025, at 10:00 a.m., Eastern Standard Time. The meeting was held at the Board's offices at 77 K Street, NE and was open to the public via teleconference. In attendance were Dana K. Bilyeu of Oregon, member (by telephone); Leona M. Bridges of California, member; Stacie Olivares of California, member (by telephone); 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; Michael Jerue, Acting Chief Investment Officer; Vijay Desai, Chief Information Officer; Thomas Brandt, Chief Risk Officer; Trevor Williams, Chief Financial Officer; and James L. Kaplan, Director, Office of External Affairs.

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 9:59 a.m. and welcomed everyone present to the meeting.

1. Approval of the Minutes of the December 19, 2024, Board Meeting.

Chair Gerber entertained a motion for approval of the minutes of the December 19, 2024, Board meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board meeting held on December 19, 2024, be approved.

2. 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 January 2025" (attached). In 2024, nearly 88 percent of Federal Employees' Retirement System (FERS) employees and more than 88 percent of Blended Retirement System (BRS) employees contributed enough to receive their full agency or service match, which was a Plan record. More participants than ever contributed after-tax money to a Roth Thrift Savings Plan (TSP) balance, with more than 2.7 million or 38 percent of participants contributing. Mr. Courtney also reported that

Roth assets are valued at more than 70 billion dollars, another Plan record. Additionally, over 60,000 participants rolled over funds into the TSP in 2024, totaling about 2.8 billion dollars.

In 2024, new general-purpose loans and hardship withdrawals also increased to new plan highs. Mr. Courtney noted that these increases are not unique to the TSP but are instead part of a larger trend in the 401(k) space. In conclusion, Mr. Courtney stated that participant satisfaction with TSP interactions also reached a new high of more than 93 percent in 2024.

b. Legislative Report

Mr. Kaplan provided the legislative update. He reported that Congress convened on January 3, 2025, and the Presidential Inauguration occurred on January 20, 2025. The Senate announced its committee membership, and Senator James Lankford of Oklahoma and Senator John Fetterman of Pennsylvania will serve on the Government Operations and Border Management Subcommittee as the Chairman and Ranking Member, respectively. In the House of Representatives, the Government Operations Subcommittee leadership has not changed, with Representative Pete Sessions of Texas serving as Chairman and Representative Kweisi Mfume of Maryland serving as Ranking Member.

Lastly, Mr. Kaplan reported that the Treasury Department invoked its authority to employ extraordinary measures, meaning it is unable to fully invest in the G fund due to the debt ceiling. However, he noted that TSP participants and beneficiaries remain fully protected and G Fund earnings are fully guaranteed. G Fund account balances will continue to accrue earnings and will update each business day. Loans and withdrawals will be unaffected.

3. <u>Quarterly Reports</u>.

a. Investment Review

Mr. Jerue reviewed the investment performance report. See "December 2024 Investment Program Review" (attached). For the month of December, both BlackRock's and State Street's F Fund performance lagged the Fixed Income Index's return by seven basis points and eight basis points, respectively, primarily due to a difference in the timing of pricing by the index provider and by the managers on the last trading day of November 2024. Both BlackRock's and State Street's performance for the C and S Funds aligned with respective benchmarks. BlackRock's and State Street's performance on the I Fund trailed the International Index by 53 basis points and 20 basis points, respectively, primarily due to fair value pricing.

Mr. Jerue reported that, in the month of December, the Federal Reserve decided once again to cut its target range for short-term interest rates. While the central bank noted continued progress in reducing inflation, it also issued commentary and projections that suggested a slower pace of monetary easing in the coming year. Equity markets reacted negatively to this outlook, and I Fund performance was further hampered by a stronger U.S. dollar.

Mr. Jerue next reviewed BlackRock's full-year performance for 2024. The F Fund was ahead of the Fixed Income Index return by 11 basis points, primarily due to a pricing difference at 2023 calendar year-end between the index provider and BlackRock; the C Fund's performance aligned with the Large Cap Index; and the S Fund outperformed the Small Mid-Cap Index by nine basis points, primarily due to securities lending.

State Street's full-year performance for the F Fund was ahead of the Fixed Income Index by 13 basis points, primarily due to the same year-end pricing difference mentioned for BlackRock; performance for the C Fund aligned with the Large Cap Index; and the S Fund's performance exceeded the Small Mid-Cap Index by six basis points, primarily due to securities lending.

Mr. Jerue then turned to both managers' I Fund performance for 2024. He noted that, during October 2024, the I Fund completed the process of changing its benchmark from the MSCI EAFE Index to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index. To implement this change, BlackRock and State Street independently coordinated with MSCI to develop transitional benchmarks. Each manager's 2024 performance reflects the periods during which its transitional benchmark was in effect. In 2024, BlackRock's I Fund performance lagged its applicable International Index by 16 basis points, primarily due to securities sampling and fair value pricing. State Street's I Fund performance exceeded its applicable International Index by 16 basis points, primarily due to tax advantage. Mr. Jerue noted that starting January 2025, both managers will once again be measured against the same benchmark for both monthly and year-to-date performance.

As of market close on Monday, January 27, 2025, the C Fund gained 2.29 percent for the month-to-date, the S Fund rose 3.99 percent, and the I Fund also rose 3.09 percent. The F Fund is up 0.61 percent, and the G Fund has gained 0.34 percent.

Mr. Jerue reviewed the L Funds participation and interfund transfer (IFT) rates. L Funds participation continues to grow, driven primarily by the automatic enrollment of new participants. For the month of December, IFTs were relatively low, with movement primarily from the G and L Funds into the C and S Funds. On a percentage basis, 2.2 percent of participants moved assets between funds, which is just slightly above the long run median of 2.0 percent.

Mr. Jerue next turned to the quarterly report covering proxy voting for the third quarter of 2024. He noted that an audit of BlackRock's proxy voting activities revealed no exceptions to their established guidelines. An audit of State Street's proxy voting activities found two exceptions to policy during the period. The erroneous votes, which represented 0.6 percent of the votes examined, were related to share purchase proposals at the same company in India. The erroneous votes did not change the outcome of those elections. Using these exceptions as a guide, the team responsible for making voting recommendations has trained its members to recognize similar proposals in the future, thereby avoiding recurrence of the errors.

Lastly, Mr. Jerue provided the quarterly report covering class action settlements. BlackRock began the third quarter of 2024 with 94 open claims. During the quarter, 18 new claims were opened, and 21 claims were closed. Two claims in the C Fund were settled for 503,377 dollars total, and 14 claims in the S Fund were settled for 2,100,247 dollars total. Two claims in the C Fund and three claims in the S Fund were closed due to administrator action. Residual payments from previously closed claims yielded 10,501 dollars for the C Fund and 7,575 dollars for the S Fund. Total proceeds for the quarter were 2,621,700 dollars. BlackRock ended the quarter with 91 open claims. State Street began the third quarter with 28 open claims. During the quarter, one claim was opened in the C Fund and eight claims were opened in the S Fund. Five claims were closed. Two claims in the S Fund were settled for 32,166 dollars total. Another three claims were closed due to administrator action. State Street ended the quarter with 32 open claims.

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

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

b. Budget Review

Mr. Williams presented the quarterly budget update. See "FY2025 1st Quarter Budget Review" (attached). He noted that the Board approved a budget of 500.9 million dollars for Fiscal Year 2025 (FY25). The Agency's commitment through the first quarter was 252.8 million dollars, which is 86 percent of the Agency's FY25 first quarter spend plan target. Mr. Williams noted most of the committed budget was spent on recordkeeping.

c. Audit Status

Mr. Williams next presented the quarterly external audit and remediation status. See "Quarterly External Audit and Remediation Status January 2025" (attached). He reported that out of 12 audit reports for FY25, four were in progress and eight were planned. The Employee Benefits Security Administration (EBSA) had nine audits, Sikich had one, and the Government Accountability Office (GAO) had one. The auditor for the one remaining audit has not been determined. The Agency started the quarter with 90 open audit recommendations, out of which 31 recommendations were implemented and 59 were in progress. During the quarter, there were no new recommendations nor any closed recommendations, but the Agency did implement eight additional recommendations for a total of 39 implemented recommendations.

4. Annual Expense Ratio Review.

Mr. Williams presented the annual review of TSP administrative expenses for 2024. See “2024 TSP Annual Review of Administrative Expenses” (attached). Average net assets are up from the prior year, largely due to strong market performance in 2024. The C Fund had a rate of return of 24.96 percent and the S Fund had a rate of return of 16.93 percent.

In 2024, administrative expenses declined by eight percent as compared to calendar year 2023. As a result of the increase in average net assets and the decrease in administrative expenses, the net expense ratio charged to participants in 2024 was 3.6 basis points, or 36 cents for every 1,000 dollars invested, down from 4.8 basis points in 2023.

5. Recordkeeping Service Update.

Mr. Courtney introduced Vanessa Godshalk and Owen Davies from Accenture Federal Services (AFS) to present the recordkeeping service update. See “Converge Program Update January 2025” (attached). Ms. Godshalk, AFS Civilian Portfolio Lead, expressed her and AFS’s commitment to help FRTIB in serving its mission.

Mr. Davies, AFS Client Account Lead, began by stating that participant satisfaction, account rollovers processed-in, and participant interactions through digital channels all increased in 2024. He noted this indicates participants value and trust the TSP.

Mr. Davies discussed the current recordkeeping status. He noted that, in 2024, participant satisfaction increased across all channels. Participant satisfaction was 94 percent for the TSP mobile app, 93 percent for the ThriftLine, and 93 percent overall. In 2024, 85 percent of calls to the ThriftLine were answered in less than 20 seconds. The average time on hold on the ThriftLine decreased by 32 percent, with an average wait time of 43 seconds in 2024. Mr. Davies stated that participant interactions have increased, with 95 percent of participant interactions taking place through digital channels. Mobile app logins also increased by 62 percent. In 2024, there was a 17 percent increase in overall interactions with the TSP and a 13 percent increase in the number of mobile apps downloaded. Turning to loan handling, Mr. Davies stated that the number of loans processed increased by 10 percent. In 2024, 99.94 percent of loans processed were processed accurately and 99.7 percent were processed on time. Loans that were not processed on time were still processed within about 2.2 days on average. Participant satisfaction with loan handling through the web and mobile channels was 97.1 percent in 2024. Mr. Davies next discussed account rollovers. In

2024, the dollar value of rollovers into the TSP increased by 40 percent. About 45,500 of those rollovers were conducted through the concierge service.

Mr. Davies then presented the AFS approach to supporting the four goals in FRTIB's Strategic Plan. For Goal A, improve participant outcomes, high satisfaction rates for the ability to manage and track TSP investments in My Account and the mobile app; work to meet service level requirements (SLR) and key performance indicators (KPI) to better track and meet participant outcomes; and enhancements to the Retirement Income Modeler tool all contributed directly to this goal. For Goal B, provide top-tier defined contribution services, achieving a 93 percent participant satisfaction rate; delivering all mandatory SECURE 2.0 provisions successfully and on time; and achieving over 75 percent of survey results ratings with level five ("extremely satisfied") have all demonstrated top-tier defined contribution services. For Goal C, functioning as a high-performing Agency, implementing Artificial Intelligence (AI) generated case summaries and call transcripts in call centers reduced call length, improved first-call resolution, and enhanced interaction documentation. For Goal D, transition successfully to a managed services operating model, Mr. Davies provided that AFS exceeded the performance target for all timeliness and accuracy SLRs consistently for every month in 2024.

Mr. Davies next provided an overview of Converge program highlights in 2024, including executing SECURE 2.0, updating L Fund options, and listening and responding to participants and beneficiaries to meet and exceed their service expectations. Mr. Davies first turned to listening and responding to participants and beneficiaries. In response to participants wanting the ability to withdraw funds sooner after a withdrawal, in May, AFS worked with FRTIB to remove the 30-day waiting period between withdrawals. After hearing some participants express a preference to not receive paper mail, in November, AFS introduced eDelivery to deliver notices according to participant preferences set in My Account. Looking ahead, Mr. Davies noted that some participants have expressed interest in Roth-in Plan conversion, so AFS is building a Roth-In Plan conversion and modeling capability for early 2026 implementation. Mr. Davies then highlighted two ongoing efforts. First, he pointed out that L Funds need to be updated to align with participant retirement ages. In 2025, a new L2075 Fund will be implemented, and the L2025 Fund will roll into the L Income Fund as it reaches its maturity date. Second, AFS and FRTIB continue to coordinate with payroll agencies to deliver SECURE 2.0 Section 603 on time.

6. Office of Technology Services Annual Report.

Mr. Desai presented the Office of Technology Services (OTS) Annual Report. See "Office of Technology Services Report" (attached). Mr. Desai began by discussing OTS's functional statement, organizational structure, accomplishments from the past year, and planned activities for the upcoming year.

Mr. Desai summarized OTS's key FY24 technology accomplishments and highlighted some of them. First, OTS onboarded a new Information Technology (IT) services provider. OTS recently conducted its 2024 annual IT survey, and Mr. Desai pointed to OTS's 85 percent customer satisfaction rate for IT infrastructure and 78 percent satisfaction rate for technology and technology support as indicators of the new service provider's success. Second, OTS hosted a successful Cybersecurity Awareness Month, which received positive feedback from attendees. Mr. Desai shared that these informative events and speakers ensure that federal personnel understand the importance of cybersecurity education and hygiene. Third, Mr. Desai highlighted OTS's work to continually improve internal operations. In its review of the Agency's Microsoft 365 environment, Microsoft provided positive feedback on the maturity of the environment, and OTS implemented all of Microsoft's recommended changes following the review.

Looking ahead to 2025 and beyond, Mr. Desai highlighted five key projects and initiatives. First, OTS will continue to collaborate across offices to improve supply chain risk management. Second, OTS will drive efforts to responsibly implement emerging technologies such as Artificial Intelligence (AI) and post quantum cryptography (PQC). Third, OTS will continue to evolve and mature the Agency's approach to security assessments and authorizations, with a focus on creating an efficient, continuous authorization model. Fourth, OTS will continue to improve the full lifecycle end user experience. Finally, OTS will continue to broaden its internal technical expertise by re-skilling and upskilling OTS' team members.

To conclude, Mr. Desai emphasized that OTS works to stay ahead of new and emerging technologies, adapts as these technologies continue to change and mature, maintains its already strong cybersecurity posture, and enhances internal productivity and technology adoption.

7. Internal Audit Update.

Ms. Barbara Holmes, Chief Audit Executive, provided an internal audit update. See "Internal Audit Update" (attached). First, she presented the completed 2024 Internal Audit Plan, then the 2024 audits in flight. She reported the completion of the Converge court-ordered payment audit, the contracting audit, and the mutual fund window operations audit. Ongoing audits include the Converge contractor vetting process audit, the Converge loans audit, and the Converge non-systematic withdrawals audit. She expects to complete the 2024 audit plan by the end of January or early February.

Ms. Holmes also presented the tentative 2025 Internal Audit Plan, which was vetted by senior management and previewed with the Board in October. She then invited questions from the Board on the plan and noted that any changes to the plan will be shared with the Board.

Chair Gerber entertained a motion to approve the 2025 Internal Audit Plan. The following motion was made, seconded, and adopted without objection:

MOTION: That the proposed 2025 Internal Audit Plan as presented to the Board on January 28, 2025, be approved.

Ms. Holmes next discussed the results of three recently completed audits. For the Converge court-ordered payment audit, her team had no findings and had one recommendation in the other matters section. The contracting audit, which assessed whether FRTIB's internal controls for contracting processes were designed properly and operating effectively, resulted in two findings related to documentation and contract file maintenance, and one other matter related to continuous learning points. For the mutual fund window operations audit, her team had no findings.

Moving to the status of internal audit findings, Ms. Holmes explained that as prior year internal audit findings are remediated and sent to her team, the team will assess those remediations and change the status, where appropriate, from in-process or open to closed. Finally, Ms. Holmes mentioned her team's other activities, including planning ahead for the 2025 FISMA audit and developing a process and procedure for the fraud, waste, and abuse hotline.

8. Full Withdrawal Exit Survey Update.

Mr. Brandt presented the Full Withdrawal Exit Survey results. See "Full Withdrawal Exit Survey Results" (attached). Mr. Brandt explained his team conducted this survey to gain an understanding as to why participants are taking full withdrawals from the TSP.

Mr. Brandt provided an overview of the survey. The Agency administered the survey from January to September of 2024 to all participants with an email on file who took full withdrawals. They sent out surveys twice each month to those taking full withdrawals, and the response rate was 5.4 percent with almost 10,000 responses to the survey. Mr. Brandt and his team consulted with Dr. Elizabeth Perry, Chief Scientific Advisor, with regards to the response rate and confirmed that surveys with response rates in the five percent range can be reliable if there have been enough respondents. Mr. Brandt pointed to the volume of responses and the consistency of the results from month to month as indications of the survey data's reliability.

Mr. Brandt then discussed the results of the survey. Overall, 87 percent of the respondents were extremely satisfied or satisfied with the TSP. Satisfaction with the TSP was somewhat consistent across career stages and retirement groups, with BRS active-duty and uniformed services legacy (U.S.-Legacy) respondents being less satisfied. The survey also captured how respondents received their full distributions. Rolling over to a traditional Individual Retirement Account (IRA) and receiving cash payments were the most reported transactions. Both active-duty and reserve BRS respondents were much more likely to report taking cash distributions than the FERS and Civil Service Retirement System (CSRS) populations. Service members across all categories were also more likely to report transferring to a Roth IRA.

The survey also examined the primary reason respondents took cash withdrawals. Mr. Brandt reported that paying living expenses and paying down debt were the most common uses for cash distributions. However, about six percent of survey participants took cash withdrawals because they believed they must withdraw their accounts when separating. Mr. Brandt stated this is an opportunity for the Agency to look at refining its communications, so participants understand they do not need to withdraw their money from the TSP when separating from service. The survey then broke down the primary reasons for taking cash withdrawals by career stage and retirement group. The BRS, both active-duty and reserve, were least likely to use the cash withdrawals for mortgage or home repairs. The BRS and U.S.-Legacy active-duty were more likely to report using cash withdrawals to pay down debt.

Next, for those participants who reported transferring their money, the survey assessed the primary reason for those transfers. Mr. Brandt reported that many of these participants transferred to consolidate retirement accounts. The next most common reasons for transferring were recommendations from advisors, wanting more investment options, and desires for personalized advisory services. Mr. Brandt stated that only three percent cited dissatisfaction with TSP customer service as a reason for transferring out of the TSP. When broken down by career stage and retirement group, 12 percent of active-duty BRS respondents believed they had to withdraw their TSP accounts after separating. Mr. Brandt reiterated this is an opportunity for the Agency to look at additional actions with regards to messaging.

Lastly, the survey included one open-ended question which asked respondents what they would change about the TSP. Mr. Brandt reported that of the respondents who answered this question, about half stated “There isn’t anything that we would change about the TSP.” Mr. Brandt concluded that the survey indicated that increased full withdrawals is not unexpected behavior, and the survey has shown the agency some opportunities for additional messaging.

In response to a question from Member Olivares regarding application programming interface (API) integration that would allow participants to view their TSP holdings with their financial services provider, Mr. Deo provided that at one point many participants used the application Mint, but that the application no longer exists. Mr. Courtney then provided that in the legacy environment, about one in four participants used a screen scraper to gather data from the legacy environment and translate it to a separate application. For security reasons, the Agency no longer allows this practice.

In response to a follow-up question from Member Olivares, Mr. Courtney answered that participants are able to see their TSP balance by logging into their account or by calling the ThriftLine. Mr. Deo also responded that the Agency does not currently support Plaid or other APIs, but that the Agency could look into it. Mr. Deo reiterated that the security of any interface is paramount. From an integrated risk management perspective, he provided this area is potentially a big source of cyber risk.

9. Adjourn.

On a vote taken by the Chair, the members closed the meeting at 11:02 a.m. for executive session.

At 12:38 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 12:39 p.m.

MOTION: That this meeting be adjourned.

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Dharmesh Vashee
General Counsel and Secretary

Attachments

1. Participant Activity Report January 2025
2. December 2024 Investment Program Review
3. Fiscal Year 2025 1st Quarter Budget Review
4. Quarterly External Audit and Remediation Status January 2025
5. 2024 TSP Annual Review of Administrative Expenses
6. Converge Program Update January 2025
7. Office of Technology Services Report
8. Internal Audit Update
9. Full Withdrawal Exit Survey Results