THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

May 6, 2011

MEMORANDUM FOR: BOARD MEMBERS SAUL, SANCHEZ, DUFFY, KENNEDY AND BILYEU

FROM: Gregory T. Long
Executive Director

SUBJECT: Fiscal Year 2011 Mid-Year Budget Review and Estimates for Fiscal Year 2012

INTRODUCTION

The following presents a mid-year review to the Board of the Agency's fiscal year 2011 budget and estimates of the fiscal year 2012 budget. Since the initiation of the fiscal year, the Agency has achieved several notable accomplishments:

- Implementation of Beneficiary Participant Accounts
- Introduction of the L 2050 Fund and the retirement of the L 2010 Fund
- Completion of the *Exploring the TSP Investment Funds* DVD
- Acceptance and processing of child support court orders from all state agencies and the District of Columbia based on a data match project with the U.S. Office of Child Support Enforcement
- Successful completion of the virtualization of all data center servers
- "Keeping the trains running"

After reviewing all major expenditures planned through the end of fiscal year 2011 (September 30, 2011), we anticipate total expenditures for FY 2011 will be approximately \$131.5 million, or \$0.3 million below the FY 2011 budget of \$131.8 million approved by the Board (\$130.3 approved at the October 2010 meeting and the additional \$1.5 million for test tools approved at the January 2011 meeting).

In response to the Board's required budget reductions in FY 2011, we removed funds budgeted for a technical refresh at our data centers, all costs for discretionary participant communications and most of the contingency funds allocated to the operational units for possible unusual processing situations.

While at this time we anticipate staying within the approved budget limits through the remainder of FY 2011, there is considerable uncertainty in the actual expenses we will incur in the following record keeping areas:

- Unexpected levels of activity: The level of processing required in the new program for child support payments to the states has been much larger than expected. Because the initial volume reflects a "pent up demand", we do not yet know what "normal" volume will ultimately be and how much of the manual processing can be meaningfully reduced by identified technology enhancements. We have directed funds away from communication efforts to fund new staff and overtime costs for the existing contractor staff. Further, we are continuing to see a steady growth in retirement benefits, court orders, and death benefit claims.

- We are also facing unknown costs with implementing Mandatory Victims Restitution Act orders. Although we do not expect extremely large volumes of these orders, they will require special handling until the process is institutionalized.

Significant Changes for FY 2012

FY 2012 will be a year of significant change for both the TSP and the FRTIB, marked most notably by the implementation of Roth TSP, the re-bid of the Agency's record keeping contract(s), the move to the new location and a reorganization arising from the retirement of several key senior personnel.

- Foremost among the items is the launch of the Roth TSP. With Roth comes sweeping changes, as the new offering touches virtually every element of the Plan:

    - The Roth TSP is requiring changes to 27 of the Plan's record keeping and accounting systems. The implementation of this option generally requires adding the capability to maintain participant records, tracking pre-, post- and tax-exempt contributions, allowing for related investment and loan flexibility, and providing the appropriate tax reporting.

    - Participant Service Representatives (PSRs) will have to be trained to answer the wide and increased variety of participant questions and the systems supporting PSRs updated.

    - More than 145 forms, booklets and notices will have to be changed to address the addition of the Roth TSP. The public and the secure My Account areas of the website will have to have significant modifications to provide general information, as well as transactional capabilities and detailed participant specific information.

    - Roth also brings with it the need to provide appropriate education to our participants. The pre- vs. post-tax decision is a more complex decision than the investment allocation decision. We must communicate this new benefit broadly and provide relevant assistance. Consequently, we are planning a two-phase approach of first providing generic educational materials and a web-based calculator. After gaining experience with participants' issues and questions, we plan to develop a more customized and interactive set of web-based tools during FY 2013.

- We are actively proceeding towards re-competing our primary record keeping contract. The new contract may be restructured to incorporate not only the record keeping applications and infrastructure, but may include other operations. The ultimate vendor and cost of the new contract, which will incorporate greater performance metrics, is unknown at this point and could result in higher record keeping expenses for the Agency. Also, we may have significant transition costs if a new vendor is selected. This has the potential to meaningfully impact FY 2012 expenses; however, the current FY 2012 estimates for these services are based on historical expenditures.

  If the new record keeping contract does not bundle all operations and associated services, we will also need to complete separate competitions for some or all of the following operations: the Clintwood call center, Serco Operations (benefit processing, Serco accounting), and R.R. Donnelley (printing and mailing). Again, the cost of these contracted services will depend on the proposals we receive and are unknown at this time. The FY 2012 estimates for these services are based on historical expenditures.

- The Agency's lease at 1250 H Street expires at the end of the 2012 calendar year. Earlier this year, we committed to moving to 77 K Street (near Union Station) and are planning to relocate during the first half of calendar year 2012. The exact timing will be determined by the build-out of the space and the Roth implementation, as we do not want to have the move and Roth implementation overlap.

- Near the end of the 2011 calendar year, several Directors are scheduled to retire. In preparation for these retirements and in a effort to meet the future challenges facing the Agency, a reorganization is being proposed. This reorganization envisions the addition of several management positions, with salary and benefit costs included in the FY 2012 budget.

Fiscal Year 2012 Budget Estimate

Taking into account the major changes expected for FY 2012 and normalized operating expectations, the FY 2012 budget is expected to increase from $131.8 to $147.2 million. The factors leading to the anticipated 12% increase ($15.4 million) over FY 2011 are as follows:

► **Record keeping activities are projected to be $111.5 million or $7.8 million above the FY 2011 budget**

- An increase of \$3.6 million in primary and backup data centers hardware and software maintenance costs are attributable to the deferred technical refresh at the data centers, as well as normal storage and capacity increases due to higher transaction volumes, as the Plan continues to grow.

- A \$3.6 million increase in operations costs is driven primarily by growth of the Plan, the increase in benefit processing due to the growth in child support payments, and the increased cost for communication lines for the data and call centers.

- A \$0.6 million increase in system contractor support costs arises largely from annual inflation increases in the GSA cost schedule.

► **<u>Participant communications</u> is projected to be \$4.1 million or \$0.8 million above the FY 2011 budget**

- The increase in the communications budget results primarily from the Roth project. The primary Roth notification – a leaflet which will be enclosed in the annual statement mailing and will announce the implementation of the Roth feature in the second quarter of 2012 – will cost approximately \$600,000 to print. In order to keep costs down in FY 2012, we consolidated this Roth introduction and educational brochure into the annual statement mailing, thereby eliminating an estimated \$3.6 million. Additionally, we again eliminated almost all discretionary participant communications (including the leaflet for G Fund only participants - \$300,000 and a mailing to the uniformed services - \$207,000).

- The balance of the increase in the FY 2012 budget represents our expected increase in participant brochure production and mailings, in line with Plan growth expectations and Roth TSP implementation.

► **<u>Agency staff</u> is anticipated to be \$17.6 million or \$2.7 million above the FY 2011 budget**

The increase in personnel costs is driven by the new personnel hired in FY 2011 and the additional positions anticipated by the planned reorganization. Although there is no cost-of-living increase scheduled for FY 2012, there will still be additional Agency costs related to changes in benefits (e.g., Agency's portion of health insurance).

► **<u>Other Agency operations</u> is projected to increase to \$14.0 million or \$4.0 million above the FY 2011 budget**

- The \$3.8 million increase for other expenses costs for FY 2012 is due primarily to the one-time build-out and moving costs of approximately \$3.1 million associated with the Agency's planned relocation to 77 K Street. However, total occupancy costs over a 10 year period will be less than our leasing equivalent space in our current location. This project is still in initial planning stages and the cost estimates are subject to change.

- The increase of $0.2 million in Office Rent from the revised FY 2011 budget, results from the automatic escalator clause in the Agency's lease at 1250 H Street. The 1250 H Street lease expires in December 2012 (first quarter of FY 2013). The lease terms for the Agency's new location at 77 K Street include a grace period through December 2012. The actual office rent cost for FY 2012 may be reduced if the 1250 H Street space can be rented before the expiration of the Agency's lease in December 2012.

- IT costs at the Agency are unchanged as a result of including the estimated IT infrastructure build-out costs ($745,000) in the $3.8 million discussed above.

There is one noteworthy item that should be identified as potentially having a significant impact on the FY 2012 budget. However, the occurrence and/or amount of this item is not known at this time.

- Two IBM mainframes purchased at the end of FY 2007 and installed at the beginning of FY 2008 will near obsolescence during FY 2012. We are currently working with IBM on an updated capacity planning study to determine the appropriate course of action. It is possible that delaying this purchase to FY 2013 would be imprudent. The expense for purchasing two mainframes could reach $10 million.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD BUDGET

SELECTED SUMMARIES OF INTEREST	FY 2011 Original Budget	FY 2011 Projected Budget	FY 2011 vs. FY2011 Budget	FY 2012 Budget Estimate	FY 2012 vs. FY2011 Budget
Record Keeping					
TSP system contractor support & maintenance	36,770,000	36,736,313	(33,687)	37,378,000	608,000
Subtotal TSP Systems	**36,770,000**	**36,736,313**	**(33,687)**	**37,378,000**	**608,000**
Primary Data Center contractor support & Data Security	10,354,000	10,400,653	46,653	10,612,000	258,000
Primary Data Center hardware & software	7,858,831	7,433,214	(425,617)	9,938,500	2,079,669
Backup Data Center contractor support	2,340,000	2,340,000	0	2,450,000	110,000
Backup Data Center hardware & software	1,731,000	896,498	(834,502)	2,226,000	495,000
Clintwood Call Center contractor support	5,009,000	5,023,700	14,700	5,717,000	708,000
Clintwood Call Center hardware, software, and lease direct charges	1,571,000	1,530,090	(40,910)	917,500	(653,500)
Frostburg call center	5,906,000	5,890,800	(15,200)	6,550,000	644,000
Call center consultant	110,000	110,000	0	110,000	0
Subtotal Data, Recovery, and Call Centers	**34,879,831**	**33,624,955**	**(1,254,876)**	**38,521,000**	**3,641,169**
Operations Benefit Processing (Mail, Data Entry, Printing, etc)	18,087,169	18,992,169	905,000	20,248,500	2,161,331
System Accounting	3,100,000	3,100,000	0	3,100,000	0
Communications lines for data and call centers	3,578,000	4,520,345	942,345	4,633,000	1,055,000
Postage (TSP System Mailings) - Notices/Statements	7,275,000	7,275,000	0	7,633,000	358,000
Subtotal Operations, Accounting, Communications, & Postage	**32,040,169**	**33,887,514**	**1,847,345**	**35,614,500**	**3,574,331**
Total Record Keeping	**103,690,000**	**104,248,782**	**558,782**	**111,513,500**	**7,823,500**
Communications					
Brochures Printing	996,000	551,000	(445,000)	1,046,000	50,000
Other Printing (Posters, Highlights, DVDs, Leaflets)	1,242,000	1,247,000	5,000	1,630,000	388,000
Other Communication Materials	308,000	288,000	(20,000)	314,000	6,000
Subtotal Print Materials	**2,546,000**	**2,086,000**	**(460,000)**	**2,990,000**	**444,000**
Distribution and Fulfillment	372,000	247,000	(125,000)	372,000	0
Postage (Discretionary Mailings)	350,000	270,000	(80,000)	750,000	400,000
Subtotal Other Interest	**722,000**	**517,000**	**(205,000)**	**1,122,000**	**400,000**
Total Communications	**3,268,000**	**2,603,000**	**(665,000)**	**4,112,000**	**844,000**
Personnel salaries and benefits	**14,899,000**	**13,974,700**	**(924,300)**	**17,628,400**	**2,729,400**
Other Agency Operations					
Office Rent	3,005,000	3,014,000	9,000	3,250,000	245,000
IT hardware/software/services here in the agency	2,154,000	2,729,650	575,650	2,126,000	(28,000)
All other expenses (eg. supplies, training, travel, consultants)	4,814,000	4,961,000	147,000	8,581,000	3,767,000
Total Other Agency Operations	**9,973,000**	**10,704,650**	**731,650**	**13,957,000**	**3,984,000**
GRAND TOTAL	**131,830,000**	**131,531,132**	**(298,868)**	**147,210,900**	**15,380,900**