



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

May 12, 2008

MEMORANDUM FOR BOARD MEMBERS DUFFY, FINK, SANCHEZ,
SAUL AND WHITING

FROM: Gregory T. Long
Executive Director

A handwritten signature in black ink, appearing to be "G.T. Long", written over the printed name of the Executive Director.

SUBJECT: Fiscal Year 2008 Mid-Year Budget Review

INTRODUCTION

We have reviewed the FY 2008 budget activity to date focusing on the following four principal components of the FY 2008 budget: 1) Record keeping activities (including implementation of the TSP System Modernization Plan); 2) Participant communications; 3) Agency staff; and 4) Other Agency operations.

SUMMARY

After projecting our major expenditures through the end of fiscal year 2008 (September 30, 2008) based on current information, we are currently expecting total expenditures for FY 2008 to be approximately \$104.9 million, or \$3.5 million below the total budgeted amount of \$108.4 million. This is based on the following projections:

- Record keeping activities will exceed the currently budgeted amount of \$81.7 million by approximately \$1.4 million, representing a \$4.1 million increase in costs associated with system modernization efforts, offset by an expected \$2.4 million decrease from the budgeted costs for TSP Operations and savings of \$0.3 million in other miscellaneous record keeping areas.
- Participant communications expenditures may be up to \$3.0 million less than the budgeted amount of \$7.0 million, depending upon the discretionary mailings we

have budgeted and the timing of the production of certain materials at the end of the fiscal year.

- Agency staff costs are expected to fall \$2.3 million below the budgeted projection of \$10.7 million due to the hiring of some staff members in the latter half of the fiscal year.
- Other Agency Operations are expected to exceed the budgeted amount of \$9.0 million by approximately \$0.4 million, due to facilities improvements at Agency headquarters and a new, more secure identification card system.

DISCUSSION

1. Record keeping activities

In September 2007, the Board approved \$81.7 million for the FY 2008 record keeping activities, consisting of the following components:

- \$27.5 million for TSP system support and TSP system software, including the new software configuration management processes and systems, and additional contractor support for the record keeping system development and maintenance;
- \$29.0 million for all operations of the call, data, and recovery centers, including hardware and software upgrades as described in the September 2007 TSP System Modernization memorandum; and
- \$25.3 million for other recordkeeping activities such as mail handling, data entry, benefits processing, and system accounting.

We now estimate that we will require \$83.1 million for record keeping activities, an overall increase of \$1.4 million.

TSP System Modernization Effort

We currently anticipate that we will need \$4.1 million more for the TSP System Modernization effort than original budget projections. This is based on our estimates of the

following additional costs, which have been further clarified as we have proceeded with the implementation of our modernization plan:

Bandwidth upgrades (increase in size of bandwidth between sites, with required redundancy and transition costs necessary to run both links for a period of time): \$0.8 million

DASD/SAN Storage (more capacity needed for full test database): \$1.6 million

Network hardware and software (additional components identified as improving security and ensuring redundancy): \$0.5 million

PowerImage OCR (optical character reader upgrades to support the new Omni release): \$0.3 million

Serena Upgrade: (Maintenance charges for Serena ChangeMan, the mainframe configuration management tool, for the new mainframes): \$0.9 million

Record keeping Operations

Based on the current level of expenditures and projected increases in workload through the rest of the fiscal year, we currently estimate that the costs for SI software development and maintenance activities, the two Call Centers, and SI Accounting Operations will comport with our budgetary estimates.

However, based on the current levels of expenditures and expected usage, we are projecting that the costs of the SI Operations Center (which provides rollover and adjustment processing, legal processing, death benefits processing, agency technical services and associated activities) will fall below budget projections by \$1.4 million and that the costs of the SI Service Bureau (which provides mail management and data entry services) will fall below budget projections by \$1.0 million, resulting in a projected cost savings of \$2.4 million.

Other

We expect to realize cost savings of \$0.3 million resulting from the postponement of other activities until after completion of the system modernization project.

2. Participant communications

In September 2007, the Board approved a budget of \$7.0 million for participant communications, consisting of the following:

\$3.5 million for printing of brochures, forms, and production of other communications materials (e.g., DVDs and the target communications for special populations), including the updates and revisions required as a result of the password and account number projects, annual participant statements, the IFT limit changes, and the in-process OCR forms redesign project;

\$0.3 million for the distribution and fulfillment costs; and

\$3.3 million for postage.

We currently expect to spend \$4.0 million on participant communications during FY 2008. Potential savings of \$3.0 million arise from the contingency project for a Leaflet/postcard announcing new benefits and deferring discretionary projects to FY 2009.

Although postage costs and the number of mailings to participants continue to increase, those increases were anticipated in our original budget numbers and no adjustment for those items is necessary at this time. However, savings could be realized in the area of discretionary communications materials, depending on whether the following projects are postponed until FY 2009:

Leaflet/postcard announcing new benefits: \$1.7 million
DVD for new participants: \$0.8 million
Uniformed services mailing: \$0.2 million
Mailing to participants over age 50: \$0.2 million

Some of these projects may be postponed until FY 2009 due to intervening work on issues such as IFT restrictions and the need to wait until legislation clarifying new benefits is enacted.

3. Agency staff

In September 2007, the Board approved \$10.7 million for salaries and benefits of the Agency's staff. The FY 2008 budget provided for salaries and benefits of 80 full-time positions and 9 part-time positions, including the 5 part-time Board members.

We currently expect to spend approximately \$8.4 million on Agency salaries and benefits in FY 2008, resulting in budget savings of approximately \$2.3 million.

The Agency's projected salary and benefits costs are generally calculated as if all positions were filled as of the beginning of that budget year. Although we have hired 9 additional staff since the beginning of the FY 2008 and expect to hire or replace several more staff members before the end of the fiscal year, only a few of these positions will have been filled for the entire fiscal year. Our current staffing is 70 full time and 6 part-time positions.

4. Other Agency operations

In September 2007, the Board approved \$9.0 million for other Agency operations, consisting of the following:

\$2.5 million for office rent;

\$1.5 million for Agency information technology costs;
and

\$5.0 million for all other operating expenses, including the web redesign project, participant survey, travel (including contractor on-site reviews), increased employee training, miscellaneous contractual expenses, supplies, and office equipment.

We currently project that expenditures in this area will be \$9.4 million, resulting in a budget increase of \$0.4 million.

With the decision to retain the second floor, we need to upgrade the facilities at Agency Headquarters with new carpeting and new paint, which are expected to increase FY 2008 office maintenance costs by approximately \$0.3 million. We also have contracted to provide Agency staff with new identification cards which will be compliant with government-wide security standards. This will result in additional expenditures of approximately \$0.1 million.