



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 28th, 2019

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 28th, 2019, at 8:30 a.m., Eastern Time. The meeting was open to the public at the Board's offices at 77 K Street, N.E. In attendance were Dana K. Bilyeu of Oregon, member; Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Ravindra Deo, Executive Director; Dharmesh Vashee, Acting General Counsel; Suzanne Tosini, Chief Operating Officer; Vijay Desai, Chief Technology Officer; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Sean McCaffrey, Chief Investment Officer; Tee Ramos, Director, Office of Participant Services; Renée C. Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the December 17th, 2018 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the December 17th, 2018 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on December 17th, 2018 be approved.

2. Monthly Reports.

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

a. Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). Mr. Ramos reported that the opt-in period for Blended Retirement ended with a total of 307,478 opt-ins, which lags the reported Department of Defense number of 392,618. Mr. Ramos indicated that we expect our February report based on the Department of Defense's payroll will reflect the higher number. Mr. Ramos also reported that the uniformed services participation rate for

active duty members has risen to 57.2 percent. The changes at the contact centers have resulted in improvements in all service level metrics in preparation for the traditional high-season. Mr. Ramos noted, that the TSP is starting to see activity changes as a result of the partial government shutdown. In comparison to last year's data, since December 26; loans have increased by five percent, hardship withdrawals increased by 26 percent, and contact center volumes have increased by approximately five percent. Mr. Ramos stated that TSP-related information was posted on [tsp.gov](https://www.tsp.gov) and the Agency's social media channels for the benefit of participants in non-pay status.

b. Legislative Report

Ms. Weaver reported on multiple pieces of legislation and press coverage generated by the government shutdown. The legislative proposals aimed to permit federal employees affected by the lapse in appropriations to access their TSP funds. The Agency provided feedback to each Congressional office who was sponsoring legislation.

Ms. Weaver described H.R. 338, introduced by Rep. Mark Meadows, which creates a withdrawal that's neither a loan nor a hardship. Rep. Pete Olson introduced H.R. 545, which would apply to both federal employees and contractors during any future shutdown and would allow 4,000 dollar withdrawals every 14 days with repayment required within three years. Ms. Weaver noted that, as drafted, H.R. 545 would put a severe burden on the Agency in terms of processing by allowing multiple withdrawals during a shutdown and potentially slow down money-out transactions. Ms. Weaver reported the Agency had productive discussions with Rep. Olson's staff and pointed toward draft legislation that mimics financial hardship withdrawals for natural disasters. Ms. Weaver reported that Rep. Elaine Luria introduced H.R. 673, which permits a furloughed employee to take out TSP funds in an amount not greater than the salary missed due to the furloughed period. H.R. 673 permits the participant to re-contribute the amount withdrawn within 180 days.

Sen. Tim Kaine introduced a bill in the Senate that would create a hardship withdrawal of up to 30,000 dollars if a government shutdown lasts longer than two weeks. Multiple withdrawals are permitted under Sen. Kaine's bill, as long as the total amount withdrawn is under the 30,000 dollar limit. Withdrawals can be re-contributed within 120 days.

Ms. Goethe reported on the Agency's efforts to help FRTIB employees whose family or friends were affected by the government shutdown. Ms. Goethe reported that the Agency sent out a memo to all FRTIB staff about the Employee Assistance Program and its offerings. The Employee Assistance Program provides

counseling services, counseling referrals, financial services, and provides discounted legal services for federal employees.

Member McCray asked if the bills were consistent with the needs of participants and beneficiaries who contacted the Agency during the shutdown. Ms. Weaver responded in the affirmative, noting that participants and beneficiaries generally wanted to know how to access their TSP funds without penalty. Ms. Weaver noted that the proposed bills would allow access to TSP funds by essentially turning a hardship withdrawal into a loan that would be repaid after the shutdown was over. Chairman Kennedy requested the Board be kept informed of legislative progress as the aforementioned bills move forward.

c. Monthly Investment Performance Report

Mr. McCaffrey reviewed the monthly investment performance report. See "December 2018 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. McCaffrey noted that for the month of December, BlackRock's F Fund performance was in line with the Fixed Income Index and C Fund performance was in line with the Large Cap Index. The S Fund performance was ahead of the Small-Mid Cap Index by nine basis points, primarily due to securities sampling. BlackRock's performance for the I Fund was ahead of the International Index by three basis points, primarily due to tax effect.

For 2018, the F Fund was ahead of the Fixed Income Index by 18 basis points, primarily as a result of securities lending. Performance for the C Fund for the year was in line the Large Cap Index. The S Fund was ahead of the Small-Mid Cap Index by 34 basis points, primarily due to securities lending and securities sampling. Finally, BlackRock's yearly performance for the I Fund was ahead of the International Index by 42 basis points, primarily due to tax effect.

Mr. McCaffrey noted that stock markets exhibited substantial volatility through the month of December. The volatility was attributed by various reports to concerns over monetary policy and slowing global growth. Others pointed to oil price declines and model-driven computerized trading. It's reasonable to say that it wasn't just one factor driving markets. U.S. and international stocks were down significantly for the month of December which led to losses for all of the TSP stock funds and for all of the L Funds. The F Fund held sizeable gains as the buying of Treasury bonds led to lower yields despite the fed funds target rate increase.

For the current month through January 25th, the C Fund has gained 6.4 percent. The S Fund is ahead 10.05 percent. The I Fund is up 5.55 percent. The F Fund is higher by 0.29 percent.

Mr. McCaffrey reported that all L Funds' returns were negative for the month of December and for 2018 as a whole, except for the L Income Fund, which managed a gain for the year. Mr. McCaffrey noted that the L Funds' diverse asset

classes provide a buffer for much of the market's volatility; however, the downside risk cannot be completely avoided given the magnitude of the overall stock declines over the reporting periods.

Mr. McCaffrey reported that interfund transfer activity was up on an absolute basis, mostly in favor of the G Fund, and to a much lesser extent, the F Fund, probably reflecting views of the two Funds' safe haven status amidst the unusual stock market volatility. He noted from studies that the levels of IFTs are not alarming on a percentage basis and the vast majority of participant Funds seemed to stay invested as they had been. Mr. McCaffrey reported a continued rise in L 2050 Fund participation largely as a result of Uniformed Services auto-enrollment and opt-ins to the Blended Retirement System.

Mr. McCaffrey reported that an audit of BlackRock's proxy voting found no exceptions to established guidelines during the third quarter of 2018. For the third quarter of 2018, there were 57 class action claims open at the start of the quarter, 11 claims were opened during the quarter, and five claims were closed. One claim was closed due to administrator action and four were closed due to settlements. At the end of the quarter, 63 claims remained open. Settled claims amounted to just over 20,000 dollars, all occurring in the S Fund.

Chairman Kennedy entertained a motion to affirm the current investment policies. The Board members made, seconded, and adopted the following resolution by unanimous vote:

RESOLUTION:

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 *et seq.*) provides the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f) (1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Common Stock Index Investment Fund, the Fixed Income Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the

International Stock Index Investment Fund are affirmed without change.

Mr. McCaffrey reported on initial changes to the Lifecycle Funds made in the month of January. First, international portions of all the L Fund stock components were increased from 30 percent to 35 percent. Second, the assumed age of first withdrawal went from 62 to 63. Third, other minor glide path changes were made.

3. Office of Enterprise Risk Management Audit Update.

Mr. Brack Boone, Senior Auditor, provided an update of the external audit activity. See "Audit Reporting Activity Summary" (attached). Mr. Boone stated that in FY 2019 so far, ten audits were completed, seven were in process and four were planned to be completed by the end of the year. Mr. Boone reviewed eight of the completed audits, including: Account Maintenance; Annuity Process; Certain Remote TSP Contractor Sites; Mainframe; Mobile Device Security; NDAA Post-Implementation Review; Participant Support; and Status of Prior Year Recommendations.

Mr. Deo discussed the audit progress noting that auditors closed 73 audit findings, exceeding the expected 63 audit closures. Mr. Deo noted that 13 of the closed audit findings related to FISMA audits and 60 of the closed audit findings related to EBSA audits. The Agency still expects to close 31, 27, and 29 audit findings over the next few quarters, which would mean more than 120 audit findings closed for the year. Mr. Deo compared the most recent quarter to the last four years noting that the auditor has closed more in the first quarter than they have at any point in the last four years. To better manage auditor-added findings and tackle the underlying issues, the Agency has also started an Internal Controls Program to develop strong internal controls and preemptively strengthen the Agency's audit posture.

Mr. Deo outlined the risk-based audit process utilized by the Agency. Once an audit report is received, the Agency determines the risk of each audit finding using a uniform Common Vulnerability Scoring System (CVSS) methodology and then develops comprehensive corrective action plans for related audit findings. For audit findings rated critical or high, the vulnerability is remediated first, then a corrective action plan is created. Mr. Deo then provided a brief overview of the audit activity since FY 2015 that resulted in 318 open audit findings as of Quarter 1 of FY 2019 as well as the risk ratings of these audit findings. Mr. Deo concluded by showing statistics of the number of open vulnerabilities over time resulting from external scans (NCATS) that show that FRTIB has never had any critical or high vulnerabilities since the inception of the NCATS scans. He also noted that the TIB has had no vulnerabilities since April 2018.

4. Quarterly Budget Update.

Ms. Crowder reported on the quarterly budget update. See "Quarterly Budget Update" (attached). The Agency executed approximately 86 percent of the

budget relative to the targeted spending plan. By the end of the first quarter of 2019, the Agency had executed roughly \$91.8 million, or 25 percent of the overall budget for the Agency. Ms. Crowder pointed out that 64 percent of the \$91.8 million was allocated to support record keeping operations and maintenance. The budget for Fiscal Year 2019 is \$360.6 million.

Ms. Crowder reported that the Plan's average net assets, against which administrative expenses are applied, was approximately \$565 billion in 2018. The Plan's gross administrative expenses of \$287 million were offset by forfeitures and loan fees resulting in a net administrative expense of \$225 million. Ms. Crowder noted that the increase in the Agency's budget is associated with maintaining and improving Agency services for the growing participant base, both civilian and uniformed service members. Additionally, the budget reflected efforts to implement the Blended Retirement System, improvements to the Agency's cybersecurity posture, and the remediation of audit findings. Approximately 40 cents per every 1,000 dollars invested went toward the Agency's 2018 operating expenses.

Ms. Crowder reported that the net cash flow both in and out of the Plan continues to increase while withdrawals increased slightly more than contributions resulting in a decrease in the Agency's net cash flow. The Agency ended 2018 with a positive net cash flow of \$8.4 billion, which is a reduction of \$1.3 billion from 2017. Ms. Crowder noted that the number of participants reaching retirement age and separating from the government continues to increase.

5. Additional Withdrawal Project Update.

Mr. Tanner Nohe, Supervisory Project Manager, provided an update on the Additional Withdrawal Project. See "Additional Withdrawal Project Update" (attached). Mr. Nohe reported that the project was divided into three phases. The first phase was for the installment payments and related maintenance, as well as the withdrawal deadline change. The withdrawal deadline change went into effect at the end of 2018 and notices were sent out. The installment and maintenance portions of the first phase are completely developed and system testing is underway. The second phase of the project is for post-separation withdrawals. Design work on the second phase is complete and development work is at 39 percent completion. The final phase is for the age-based, in-service and hardship withdrawals. Design work on the final phase is currently at 29 percent completion.

Mr. Nohe noted two new risks to the project, both relating to the government shutdown. Firstly, if new legislation is passed relating to withdrawals for furloughed federal employees, the timeline of the project may be impacted. Resources and contractors may need to be devoted to the legislation work rather than the project. Secondly, when the government was shut down the Federal Register was shut down. If the shutdown continued, new regulations could not be submitted to the Federal Register for comments. Mr. Nohe noted that the new risks will be monitored as the project

continues and that the Office of Communications and Education will start communicating with participants about the coming changes and the associated effects.

6. Adjourn.

On a vote taken by the Chairman, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 9:26 a.m.

MOTION: That this meeting be adjourned.



Dharmesh S. Vashee
Acting Secretary

Attachments

1. Thrift Savings Fund Statistics
2. December 2018 Performance Review – G, F, C, S, I, and L Funds
3. Audit Reporting Activity Summary
 - a. Account Maintenance
 - b. Annuity Process
 - c. Certain Remote TSP Contractor Sites
 - d. Mainframe
 - e. Mobile Device Security
 - f. NDAA Post-Implementation Review
 - g. Participant Support
 - h. Status of Prior Year Recommendations 3
4. Quarterly Budget Update
5. Additional Withdrawal Project Update