



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

GREGORY T. LONG
Executive Director

September 5, 2008

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

FROM: GREG LONG
Executive Director

SUBJECT: Fiscal Year 2008 Projected Expenditures, Fiscal Year 2009 Budget,
and Fiscal Year 2010 Budget Estimate

Background

Section 8472(i) of the Federal Employees' Retirement System Act of 1986 states:

The Board shall prepare and submit to the President, and, at the same time, to the appropriate committees of Congress, an annual budget of the expenses and other items relating to the Board which shall be included as a separate item in the budget required to be transmitted to the Congress [annually by the President].

The Office of Management and Budget (OMB) will be starting its work on the Fiscal Year 2010 Budget of the U.S. Government, which will be transmitted by the President to the Congress in February 2009.

Attached are the Agency's proposed administrative budget for fiscal year 2009 and a first estimate for fiscal year 2010. Projected final expenditures for fiscal year 2008 are also presented in the tables. The figures are provided by the Federal Government's prescribed budgeting "object classes", by Agency office, and by function, which provides three different "looks" at the budget. Salient elements of the 2008 projected expenditures, 2009 budgeted expenditures, and 2010 estimated expenditures are summarized below. This narrative can be most easily referenced by reviewing the budget report by function.

Following your approval, the Agency's 2009 budget (together with the 2010 estimate) will be provided to the Congress and to OMB for inclusion in the President's budget.

Fiscal Year 2008 Status

The current projection for operations during the fiscal year ending September 30, 2008, indicates total obligations will be \$97.8 million, or \$10.6 million under the \$108.4 million approved budget. The principal variances from the budget are:

- a) Record keeping costs of \$81.1 million are projected to be \$0.6 million under the budgeted amount.

Substantial progress has been made on the system modernization effort, with the additional expenditures in areas of storage and software licenses outlined at the May Board meeting, some of which will also affect subsequent year costs.

However, offsetting these additional costs are delays in other data center modernization initiatives due to the unforeseen need to relocate the primary data center. Also, call center costs were somewhat less than budgeted.

- b) Participant communications costs of \$1.3 million are projected to be \$5.7 million under budgeted amount.

During FY 2008, we focused our available communications resources on supporting a number of high priority Agency projects, including the annual participant statements, the interfund transfer restrictions, and the custom account numbers, in lieu of pursuing new communications initiatives, such as the DVD for new participants, and a special mailing to all TSP participants. We also reduced our printed communication materials such as brochures, posters, *Highlights*, and leaflets with an associated reduction in the distribution, fulfillment, and postage costs through a continued emphasis on web availability.

- c) Agency personnel costs of \$9.0 million are projected below budget by \$1.7 million.

Fiscal year-end staffing is projected to be less than budgeted at the beginning of the year. Other staff members were hired later in the fiscal year than projected, resulting in cost savings. We continue to focus on targeted hiring of individuals with specialized expertise on our areas of need. As this process can take longer than expected, it can affect our ability to undertake projects in other areas, resulting in expenditures that are less than expected. In particular, this occurred in the communications area in FY 2008, as there was not adequate staff to both support high priority projects and significant new initiatives. We are focusing our efforts on filling budgeted staff positions in this area.

- d) Other operating expenses of \$6.4 million are projected at \$2.6 million below budget.

Expected expenditures on hardware and software at the Agency's offices were less than budgeted, as we were able to move more of these capabilities to the

primary data center. In addition, a one-month delay in the award of the participant survey contract means that project will be charged to FY 2009 expenditures. Finally, there were smaller than expected amounts spent on travel, training, supplies, and other miscellaneous items.

Fiscal Year 2009 Budget

The FY 2009 budget of \$114.5 million represents an increase of \$6.1 million from the FY 2008 budgeted amount of \$108.4 million. This increase results from 1) expenditures for projects deferred from FY 2008 in the areas of systems modernization, network telecommunications, and participant communication materials; 2) additional expenditures to address security detection and prevention efforts and enhanced control initiatives, and 3) escalation of ongoing operating costs as well as costs associated with the relocation of the primary TSP data center.

I note that The FY 2009 budget does not include costs for implementation of pending legislative changes, as the nature and timing of those changes are currently unknown. Should legislation be implemented which would require significant additional expenditures to be made in FY 2009, or should other significant changes occur that affect our current expectations, these would be presented to the Board as part of the May 2009 budget update.

The principal components of the FY 2009 budget are:

► **Record keeping activities:** \$85.8 million (\$4.1 million above the FY 2008 budget), consisting of the following:

- \$29.5 million for TSP system support and TSP system software (an increase of \$2.0 million from the FY 2008 budget).

This increase reflects greater personnel support in the core record keeping system in the areas of system engineering, quality assurance, and expanded system-wide security efforts.

- \$28.9 million for the call centers and data centers (an decrease of \$0.1 million from the FY 2008 budget).

Lower costs for hardware and software due to the completion of significant purchases in FY 2008 will be offset by increased costs associated with additional contractor support and security for the data and call centers and the cost of relocating the primary data center.

- \$27.5 million for other record keeping operations and related activities such as mail handling, data entry, benefits processing, and system accounting (an increase of \$2.2 million from the FY 2008 budget).

The increase is due to the continued growth in the number of overall transactions, including loans and withdrawals and labor intensive processes such as death benefits and court orders, as the number of TSP participants increases. This also increases the number of notices sent, resulting in higher postage costs. The increase reflects the hiring of new contract accountants to provide enhanced controls, the transition to OCR (Optical Character Recognition) form review capabilities, and the continued effort to track returned mail and locate "lost" participants. Finally, the increase also reflects higher speed communications lines, redundancy, and transition costs for the data and call centers.

► Participant communications: \$6.3 million (\$0.7 million less than the FY 2008 budget), consisting of the following:

- \$3.4 million for printing of brochures, forms, and production of other communications materials, including targeted communications for special populations, and the "Welcome to the TSP" and updated L Fund DVD's (unchanged from the FY 2008 budget).
- \$0.3 million for distribution and fulfillment costs (unchanged from the FY 2008 budget).
- \$2.6 million for postage (a decrease of \$0.7 million from the FY 2008 budget).

This represents postage for discretionary mailings and reflects the continuing efforts to target those mailings and to move them to the contract mailer to achieve more postage cost savings.

► Agency staff: \$12.9 million (\$2.2 million above the FY 2008 budget)

- The most significant part of the increase is due to the projected annual salary and benefit increases for the current budgeted staff positions due to the standard government-wide pay raises, plus the proposed cost of living adjustments for the Washington, DC area. There is also a proposed increase of three full-time positions (to 89 full-time positions) and one part-time position (to seven part-time positions, including the five Board members) from the numbers budgeted for in FY 2008. The additional positions will be primarily targeted to areas critical to our commitment to system security and to enhanced internal controls.

► Other Agency operations: \$9.4 million (\$0.5 million more than the FY 2008 budget), consisting of the following:

- \$2.6 million for office rent (an increase of \$0.1 million from the FY 2008 budget), resulting from the automatic escalator clause in the Agency's lease at 1250 H St.
- \$0.8 million for information technology costs at the Agency's offices (a decrease of \$0.6 million from the FY 2008 budget), resulting from the continuing transition of Agency IT operations to the data centers.
- \$6.0 million for all other operating expenses (a increase of \$1.1 million from the FY 2008 budget).

This includes anticipated costs for the participant survey, the web redesign project, increased travel (including contractor on-site reviews), and enhanced employee training.

Fiscal Year 2010 Budget Estimate

The initial estimate for FY 2010 obligations is \$118.8 million, or \$4.3 million above the FY 2009 budget. The major programs and the changes from the FY 2009 operating plan reflected in this estimate are:

- ▶ Record keeping activities: \$89.1 million (\$3.3 million above the FY 2009 budget)
 - The FY 2010 estimate reflects increases in core record keeping system support and maintenance, as well as the purchase of a new suite of software application test tools. There will also be continuing increases in operations costs as transaction volumes continue to grow.
- ▶ Participant communications: \$6.8 million (\$0.4 million above the FY 2009 budget)
 - Participant communications costs in FY 2010 are expected to be comparable to FY 2009, with modest increases anticipated as the number of TSP participants and Federal Government retirees continues to increase.
- ▶ Agency staff: \$13.5 million (\$0.6 million above the FY 2009 budget)
 - FY 2010 costs for salaries and benefits are estimated to increase slightly due to the standard government-wide pay raises. No significant staff increases are planned for the FY 2010 budget.
- ▶ Other Agency operations: \$9.4 million (\$0.1 million below the FY 2009 budget)
 - Other Agency operations costs for FY 2010 are not expected to change substantially.

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD BUDGET

	FY 2008			FY2009		FY 2010	
	Budget	Projected Obligations	vs. budget	Budget	vs. FY2008 Budget	Budget Estimate	vs. FY2009 Budget
Selected summaries of interest:							
Record Keeping							
TSP system contractor support + maintenance	27,450,000	28,229,808	\$779,808	29,463,000	2,013,000	30,771,000	1,308,000
Subtotal TSP System	27,450,000	28,229,808	779,808	29,463,000	2,013,000	30,771,000	1,308,000
Primary Data Center contractor support + data security	2,310,000	2,068,161	(241,839)	4,890,000	2,580,000	3,920,000	(970,000)
Primary Data Center hardware & software	11,523,000	10,154,905	(1,368,095)	9,364,000	(2,159,000)	10,718,000	1,354,000
Backup Data Center contractor support	890,000	957,338	67,338	1,200,000	310,000	1,300,000	100,000
Backup Data Center hardware & software	3,483,000	3,722,634	239,634	1,670,000	(1,813,000)	900,000	(770,000)
Clintwood Call Center contractor support	4,965,000	4,275,000	(690,000)	5,437,000	472,000	5,507,000	70,000
Clintwood Call Center hardware, software, and lease direct charges	695,000	1,631,171	936,171	910,000	215,000	834,000	(76,000)
Frostburg call center	5,000,000	4,350,000	(650,000)	5,300,000	300,000	6,100,000	800,000
Call center consultant	85,000	78,500	(6,500)	90,000	5,000	145,000	55,000
Subtotal Data, Recovery, and Call Centers	28,951,000	27,237,709	(1,713,291)	28,861,000	(90,000)	29,424,000	563,000
Operations (Mail, Data Entry, Printing, etc)	15,593,000	17,119,774	1,526,774	15,929,000	336,000	16,482,000	553,000
System accounting	2,500,000	1,820,372	(679,628)	2,800,000	300,000	3,000,000	200,000
Communications lines for data and call centers	2,360,000	1,818,850	(541,150)	3,000,000	640,000	2,675,000	(325,000)
Postage (TSP System Mailings) - Notices/Statements	4,827,000	4,827,000	0	5,740,000	913,000	6,716,000	976,000
Subtotal Operations, Accounting, Communications, & Postage	25,280,000	25,585,996	305,996	27,469,000	2,189,000	28,873,000	1,404,000
Total recordkeeping costs	81,681,000	81,053,513	(627,487)	85,793,000	4,112,000	89,068,000	3,275,000
Communications							
Brochures Printing	997,000	144,047	(852,953)	1,047,000	50,000	1,153,000	106,000
Other Printing (Posters, Highlights, DVDs, Leaflets)	1,541,000	734,261	(806,739)	1,451,000	(90,000)	1,440,000	(11,000)
Other Communications Materials	914,000	143,714	(770,286)	939,000	25,000	1,032,000	93,000
Subtotal Print Materials	3,452,000	1,022,022	(2,429,978)	3,437,000	(15,000)	3,625,000	188,000
Distribution and Fulfillment	320,000	252,915	(67,085)	320,000	0	340,000	20,000
Postage (Discretionary Mailings)	3,268,000	50,000	(3,218,000)	2,572,000	(696,000)	2,811,000	239,000
Total communications	7,040,000	1,324,937	(5,715,063)	6,329,000	(711,000)	6,776,000	447,000
Personnel salaries and benefits	10,734,000	9,041,438	(1,692,562)	12,930,000	2,196,000	13,532,000	602,000
Other agency operations							
Office rent	2,520,000	2,503,523	(16,477)	2,570,000	50,000	2,790,000	220,000
IT hardware/software here in the agency	1,451,000	474,075	(976,925)	819,000	(632,000)	1,007,000	188,000
Everything else	4,991,000	3,432,198	(1,558,802)	6,051,000	1,060,000	5,585,000	(466,000)
Total agency operations	8,962,000	6,409,796	(2,552,204)	9,440,000	478,000	9,382,000	(58,000)
Total budget	108,417,000	97,829,685	(10,587,315)	114,492,000	6,075,000	118,758,000	4,266,000

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD BUDGET

	FY 2008			FY2009		FY 2010	
	Budget	Projected Obligations	vs. budget	Budget	vs. FY2008 Budget	Budget Estimate	vs. FY2009 Budget
SUMMARY - OBJECT CLASS TOTALS							
11.0 PERSONNEL COMPENSATION							
11.1 Full-Time Permanent Salaries	8,414,000	7,203,751	(1,210,249)	10,153,000	1,739,000	10,631,000	478,000
11.3 Part-Time Permanent Salaries	184,000	85,871	(98,129)	188,000	4,000	202,000	14,000
11.5 Other Compensation [i.e., Overtime]	10,000	3,476	(6,524)	10,000	0	10,000	0
Subtotal Permanent Compensation	8,608,000	7,293,098	(1,314,902)	10,351,000	1,743,000	10,843,000	492,000
11.3 Temporary Salaries	43,000	14,574	(28,426)	60,000	17,000	60,000	0
Total 11.0 Personnel Compensation	8,651,000	7,307,672	(1,343,328)	10,411,000	1,760,000	10,903,000	492,000
12.0 PERSONNEL BENEFITS	2,083,000	1,733,766	(349,234)	2,519,000	436,000	2,629,000	110,000
21.0 TRAVEL AND TRANSPORTATION OF PERSONS	379,000	245,292	(133,708)	416,000	37,000	439,000	23,000
22.0 TRANSPORTATION OF THINGS	80,000	5,500	(74,500)	50,000	(30,000)	50,000	0
23.0 RENT, COMMUNICATIONS, AND UTILITIES							
23.1 Rental Payments to Others [e.g., Office Space Rental]	3,000,000	2,898,331	(101,669)	3,035,000	35,000	3,280,000	245,000
23.3 Communications, Utilities, and Misc. Charges	10,961,000	7,089,678	(3,871,322)	11,924,000	963,000	12,780,000	856,000
Total 23.0, Rent, Communications, and Utilities	13,961,000	9,988,009	(3,972,991)	14,959,000	998,000	16,060,000	1,101,000
24.0 PRINTING & REPRODUCTION							
Printing of Participant Communications Materials	2,837,000	1,022,022	(1,814,978)	2,822,000	(15,000)	2,950,000	128,000
Warehouse and Distribute. of Partic. Communications Materials	320,000	252,915	(67,085)	320,000	0	340,000	20,000
Other Printing	13,000	1,924	(11,076)	53,000	40,000	63,000	10,000
Total 24.0 Printing and Reproduction	3,170,000	1,276,861	(1,893,139)	3,195,000	25,000	3,353,000	158,000
25.0 OTHER CONTRACTUAL SERVICES							
25.1 Advisory and Assistance Services [i.e., Consultants]	759,000	442,528	(316,472)	828,000	69,000	699,000	(129,000)
25.2 Other Commercial Services							
Training	222,000	369,350	147,350	334,000	112,000	343,000	9,000
Commercial Contracts and Other Expenses	61,684,000	56,420,415	(5,258,585)	66,733,000	4,964,000	67,563,000	830,000
Subtotal 25.2 Other Commercial Services	61,906,000	56,789,764	(5,111,236)	67,067,000	5,076,000	67,906,000	839,000
Services From Other Government Agencies	870,000	543,958	(326,043)	867,000	(3,000)	896,000	29,000
Subtotal, 25.3 Purchases From Government Accounts	870,000	543,958	(326,043)	867,000	(3,000)	896,000	29,000
Total, 25.0 Other Contractual Services	63,535,000	57,776,250	(5,753,750)	68,762,000	5,142,000	69,501,000	739,000
26.0 SUPPLIES AND MATERIALS							
Office and ADP Supplies	126,000	57,363	(68,637)	96,000	(30,000)	99,000	3,000
Subscriptions and Publications	134,000	82,292	(51,708)	134,000	0	144,000	10,000
Total, 26.0 Supplies and Materials	260,000	139,655	(120,345)	230,000	(30,000)	243,000	13,000
31.0 EQUIPMENT							
ADP Software	8,933,000	11,953,127	3,020,127	9,312,000	379,000	13,195,000	3,883,000
ADP Hardware	7,293,000	7,391,283	98,283	4,490,000	(2,803,000)	2,251,000	(2,239,000)
Office Equipment	22,000	3,160	(18,840)	68,000	46,000	68,000	0
Office Furniture	50,000	9,110	(40,890)	80,000	30,000	66,000	(14,000)
Total, 31.0 Equipment	16,298,000	19,356,680	3,058,680	13,950,000	(2,348,000)	15,580,000	1,630,000
GRAND TOTAL	108,417,000	97,829,685	(10,587,315)	114,492,000	6,075,000	118,758,000	4,266,000
Fiduciary insurance	550,000	248,900	(301,100)	600,000	50,000	600,000	0