



FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

MINUTES OF THE MEETING OF THE BOARD MEMBERS

August 21, 2014

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on August 21, 2014, 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 Nevada, member (by telephone); Ronald D. McCray of Texas, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Greg Long, Executive Director; James B. Petrick, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Tracey A. Ray, Chief Investment Officer; Renée C. Wilder, Director, Office of Enterprise Planning; Dave Heimann, Acting Director, Office of Technology Services; David Toro, for Kimberly A. Weaver, Director, External Affairs; Thomas K. Emswiler, Director, Office of Participant Operations and Policy; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Irene Goodheer, for Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; and Megan G. Grumbine, Executive Advisor to the Executive Director.

1. Approval of the minutes of the July 28, 2014 Board member meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the July 28, 2014 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 July 28, 2014 be approved.

2. Thrift Savings Plan ("TSP") activity report by the Executive Director.

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

a. Monthly Participant Activity Report

Mr. Emswiler reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Mr. Emswiler reported that the total plan balance decreased in July. Mr. Emswiler explained that although average balances on the whole declined slightly, Roth balances continued to trend up slightly. Mr. Emswiler stated that rollovers into the Plan for the month of July totaled 81.6 million dollars, which is a positive trend. Lastly, Mr. Emswiler concluded by stating that the FERS participation rate climbed to 87.5 percent, the highest participation rate ever.

b. Monthly Investment Performance Report

Ms. Ray reviewed the fund performance memorandum, entitled "July 2014 Performance Review – G, F, C, S, I, and L Funds" (attached). The memo compared BlackRock Funds' performance against their underlying indices both for the month of July and year-to-date. Ms. Ray pointed out that all of the funds except for the G fund were down in July. Ms. Ray stated that the C fund is up 3.1 percent, and the S fund is up 3.7 percent. Ms. Ray went on to discuss the L funds' participation rate, and stated that participants are added every month, with the fastest growth in the 2050 fund. Member Jones asked whether there was a plan to add a 2055 or 2060 fund. Mr. Long noted that the Plan intends to add a 2060 fund in the future. Mr. Long informed the Board that the Agency is looking into whether it makes sense to offer L funds in five-year increments.

c. Legislative Report

Mr. Toro gave the legislative report, and stated that since Congress was out of session, there was not much to report. However, Mr. Toro expressed optimism that the L Funds default legislation would pass by the end of the year.

3. Quarterly Metrics Report.

Ms. Wilder reviewed the report entitled "FRTIB Performance Metrics: 3rd Q FY2014" (attached). She stated that for the third quarter of FY '14, the FERS participation rate was 87.4 percent (Mr. Emswiler's report, which reported a FERS participation of 87.5 percent, was data for the end of the month, not the end of the quarter). Ms. Wilder then stated that active duty and uniformed service member participation has increased. Member McCray inquired whether active solicitation played a role in increasing the active duty and uniformed service member participation rates. Mr. Courtney attributed the increase to the Agency's efforts in building relationships with other entities, which enabled the Agency to reach more uniformed service members.

Ms. Wilder then stated that the number of participants contributing five percent, the full match level, has decreased. Member McCray asked whether the Agency has any authority to increase a participant's deferral rate. Mr. Long responded that the Agency has some flexibility due to the TSP Enhancement Act of 2009. Member McCray suggested that the Agency embark on a campaign to help increase participant deferral rates. Mr. Long responded that the Agency has had an active campaign in place for years pertaining to the subject. Member Jasien suggested auto-escalation of a participant's deferral rate. Mr. Long stated that it is something that Congress considered, but could present a challenge.

Under Strategic Goal No. 3, "We pursue flawless operations," Ms. Wilder noted one item in "yellow" status, which pertained to participant account information. Mr. Long indicated that the error occurred on a night with very heavy processing prior to the replacement of the mainframe. Under Strategic Goal No. 4, Performance Audit, the

Agency received a “red” status due to four audit findings that did not close by the prescribed deadline. Mr. Ahuja stated that three of the four open audit findings relate to a previously purchased tool that has not been fully implemented. The fourth audit finding pertained to a policy in the Office of Investments on inter-fund transfers and should close by the end of the year.

Chairman Kennedy asked for the mechanism the Agency is using to determine the Board’s satisfaction. Mr. Long responded that it would be a review of the Executive Director. Chairman Kennedy then asked if the feedback should go beyond the Executive Director’s performance and extend to the Agency as a whole. Mr. Long responded that the Agency will discuss how to make the evaluation broader. Chairman Kennedy then stated that Strategic Goal No. 2, under Best Places to Work rankings, should aim for the top ten percent in the long term, but the top twenty-five percent was sufficient for now.

4. Office of Enterprise Risk Management Presentation.

In speaking about OERM, Mr. Ahuja stated its mission is to embed risk management into key agency operations, as well as its strategic decision-making process. Mr. Ahuja explained that the risk framework at the agency is divided into three categories: preventable risks, strategy risks, and external risks. The Agency should avoid preventable risks, pursue strategy risks, and learn to manage external risks. Mr. Ahuja explained that Mr. Long is the ultimate chief risk officer, and that OERM is a facilitator. OERM has informed each of the ten offices that each office is the first line of defense. Therefore, if a particular office has policies and procedures in place, as well as trained staff, it can prevent problems from escalating. Ultimately, responsibility for identifying, measuring, managing, and mitigating risk belongs to the Agency’s ten offices. OERM then serves as the second and third lines of defense.

OERM consists of the internal controls group, the anti-fraud group, and the risk management group. Their responsibility is to find gaps in the control process and close them. Mr. Ahuja also discussed the internal audit function, which is responsible for testing the effectiveness of the controls and making recommendations.

In response to a question from Chairman Kennedy, Mr. Ahuja noted that OERM currently has sufficient resources; he also stated that future initiatives may result in a need for additional resources. Member Jasien asked how OERM audits are progressing in alignment with the Department of Labor, Employee Benefits Security Administration (EBSA), audits that the Agency will be subject to this coming year. Mr. Ahuja answered that EBSA will provide the Agency with the schedule of audits for next year. Additionally, the first group of open audit findings that EBSA is reviewing has been provided to EBSA, and the second group is already in progress and is on schedule. Chairman Kennedy asked whether OERM anticipates any new audit closings before the Board’s meeting with the Department of Labor in October. Mr. Ahuja expressed optimism that the two special audits currently in progress will be completed.

Mr. Long added that the audit process is dramatically faster than it has been in previous years, which is a step in the right direction.

5. FY '15 Budget Review and Approval.

Mr. Long gave a presentation on the FY '15 budget request and the 2016 budget estimate (attached). For FY '15, the Agency requested 207.2 million dollars, which is a three percent increase from the FY '14 budget. Mr. Long estimates that for the FY '16, the budget would be 218 million dollars, including \$10 million for moving to the new participant experience.

The plan currently has over 400 billion dollars of assets under management, and that number could go up to 446 billion by 2015, and 475 billion by 2016. Mr. Long stated that the plan intends to keep the gross expense ratio under five basis points and noted that the budget to participant ratio has increased meaningfully.

Ms. Crowder, Chief Financial Officer, discussed the budget items for each of the Agency's offices. Ms. Crowder reviewed the Agency's steady state cost themes which include competition yielding lower recordkeeping costs, agency growth, and communications budget recharacterization. She then turned to individual Office Directors to discuss the status of specific strategic initiatives in their offices.

Mr. Heimann, Acting Director, Office of Technology Services, discussed the Agency's in-flight initiative related to Enterprise Information Security and Risk Management (EISRM). Mr. Heimann began by explaining that the initiative is intended to aid the Agency in its compliance with the Federal Information Security Management Act (FISMA), and to implement the Agency's EISRM directive.

The Agency has completed seven of its planned twenty-one information systems, meaning it has completed independent third party assessments and received authorizations to operate (ATO). Two more information systems will be completed by October and Mr. Heimann estimates that by next summer all twenty-one systems will be complete, with ATOs. Member Bilyeu asked how the Agency would ensure that the systems are current and up-to-date. Mr. Heimann responded that the ATOs are designed to lead the Agency into a new regime within the federal government called continuous monitoring and that the systems will be continuously reviewed and monitored.

Mr. Ahuja, Chief Risk Officer, discussed the new Agency Enterprise Risk Management initiative and stated that it will be considered complete once a full cycle of internal controls evaluation and risk assessments have been completed. Going forward his office will be seeking consultant support to enhance internal controls and risk reviews. Additionally, Mr. Ahuja stated that his office will be coordinating the development of Agency-wide policies and procedures and will also be responsible for developing the internal audit plan once the internal audit charter is approved.

Ms. Wilder, Director, Office of Enterprise Planning, discussed the decision intelligence initiative, which is broken down into two parts: 1) examining participant preferences and behaviors, and exploiting the data to learn about the Plan's participant population; and 2) analyzing Agency operations, Agency costs, and Agency communications. One of the major projects that touches on the decision intelligence initiative is the communications impact study as well as the ongoing benchmarking project. The final initiative, comprehensive surveying, will gather input from participants on an ongoing basis about their transactions, their preferences, and offer insight into participant decision-making. The decision intelligence initiative is scheduled to close in the summer of 2015. Ms. Wilder anticipates that coming out of the next two strategic planning cycles, the Agency will have the roadmap for the new participant experience.

In conclusion, Mr. Long stated that the Agency anticipates not going over the FY '14 budget, and will be relatively close to its total allocation. Mr. Long then asked the Board to approve the FY '15 budget at 207.2 million dollars. Chairman Kennedy observed that much of the budget for FY '15 and possibly FY '16 seems to be in personnel costs, and asked if personnel costs would continue to increase until FY '16. Mr. Long clarified that most, if not all, of the personnel hiring should be completed by the end of FY '15. He then stated that to the extent the new participant experience requires additional staff, the Agency will reexamine its personnel costs. Chairman Kennedy entertained a motion for approval of the FY '15 budget. The following motion was made, seconded, and adopted without objection:

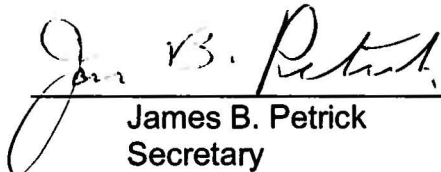
MOTION: That the FY '15 budget be approved.

Once the motion was passed, Mr. Long concluded his presentation.

6. Adjournment.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 10:37 a.m.

MOTION: That this meeting be adjourned.


James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. July 2014 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Metrics: 3rd Q FY2014

4. Office of Enterprise Risk Management Presentation
5. FY '15 Budget Presentation