MINUTES OF THE JOINT MEETING OF THE BOARD MEMBERS AND THE EMPLOYEE THRIFT ADVISORY COUNCIL

May 23, 2016

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 23, 2016, at 8:30 a.m., Eastern Time. Parts of the meeting were open to the public and parts of the meeting were closed at the Board's offices at 77 K Street, N.E., Washington, DC. 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; Greg Long, Executive Director; Megan G. Grumbine, Secretary and General Counsel; Mark E. Walther, Chief Operating Officer; Kimberly A. Weaver, Director, External Affairs; William Jacobson, Deputy Chief Financial Officer for Management; Jay Ahuja, Chief Risk Officer; James Courtney, Director, Office of Communications and Education; Gisile Goethe, Director, Office of Resource Management; Scott Cragg, Chief Technology Officer; Ravindra Deo, Chief Investment Officer; Tee Ramos, Director, Office of Participant Operations and Policy; Renée Wilder Guerin, Director, Office of Enterprise Planning; and Ernest Witherspoon, Executive Advisor to the Executive Director. In attendance for ETAC were Clifford Dailing, National Rural Letter Carriers' Association; Sarah Suszczyk, National Association of Government Employees; Kurt Vorndran, National Treasury Employees Union; Myke Reid, American Postal Workers Union; William Dougan, National Federation of Federal Employees; Richard Loeb, American Federation of Government Employees; Steve Galing, Department of Defense; Jon Dowie, National Active and Retired Federal Employees Association; Todd Wells, Federal Managers Association; Georgia Thomas, Federally Employed Women, Inc.; James Sauber, National Association of Letter Carriers; John Seal, Senior Executives Association; Bob Levi, National Association of Postmasters of the United States; and Ivan Butts, National Association of Postal Supervisors. Also in attendance was Phyllis Borzi, Department of Labor, Assistant Secretary, Employee Benefits Security Administration.

1. <u>Welcome and Introductions</u>.

Chairman Kennedy called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 8:33 a.m. Chairman Dailing subsequently called to order the Employee Thrift Advisory Council (ETAC) meeting. Chairman Kennedy welcomed everyone present to the joint FRTIB/ETAC meeting. The Board members and ETAC members introduced themselves.

2. Approval of the Minutes of the April 25, 2016 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the April 25, 2016 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 April 25, 2016 be approved.

3. Approval of the Minutes of the October 29, 2015 ETAC Meeting.

Chairman Dailing entertained a motion for approval of the minutes of the October 29, 2015 ETAC meeting. The motion was made, seconded, and adopted without objection by the ETAC.

4. Monthly Reports.

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting. He also announced Mr. Walther's retirement in June after over 30 years of government service.

a. Monthly Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). The FERS participation rate has remained steady just above 89 percent, but for the first time uniformed services participation is above 44 percent at 44.4 percent. There are 4.9 million participants in the Plan with 465 billion dollars in assets, and 15 percent of participants hold Roth accounts. The increase in monthly payments at the end of 2015 and beginning of 2016, likely due to an uptick in retirements during that timeframe, has returned to normal levels.

b. Monthly Investment Performance Report

Mr. Deo reviewed the monthly investment performance report. See "April 2016 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo examined the tracking error of BlackRock-managed funds versus their underlying indices, noting that, for the month of April, the S Fund outperformed by 6 basis points primarily due to securities lending income, and the I Fund underperformed by 100 basis points primarily due to the fair value adjustment at the end of the month. It was a fairly quiet month, and the weakening dollar helped the I Fund quite a bit.

For the year to date, the F Fund outperformed by 14 basis points and the S Fund outperformed by 30 basis points primarily due to securities lending income, and the I Fund underperformed by 17 basis points primarily due to the net effect of the fair value adjustment at the end of the month and the end of the year.

In May to date, the F Fund decreased by 11 basis points; the C Fund decreased by 42 basis points; the S Fund decreased by 1.27 percent; and the I Fund decreased by 1.87 percent.

c. Legislative Report

Ms. Weaver reported that the House is still wrestling with the budget resolution but has now moved on to appropriations work. She explained that passing a resolution now would give them access to the budget reconciliation process later in the year, which allows them to move forward with simple majorities, but she stated that it seemed unlikely that a budget resolution would pass.

Regarding Blended Retirement, Ms. Weaver reported that the House has now passed its version of the National Defense Authorization Act (NDAA), including a deletion of a new definition of separation that would have been problematic for administering the TSP. The Senate has marked up its version of the NDAA, which also includes the deletion and two other amendments: One amendment allows Cadets, Midshipmen, members of the Senior Reserve Officers' Training Corps, and members of a reserve component not in an active status during 2018 to opt in to the Blended Retirement system once they enter into a pay status. The other amendment is a sense of the Congress provision that the Department of Defense (DoD) should review whether the service members' contributions should be defaulted to a Roth account, rather than a traditional TSP account. The Agency will work with DoD to implement these provisions if they are enacted.

5. Quarterly Reports.

a. Metrics Report

Ms. Karen Vaughn Peck, Deputy Director of the Office of Enterprise Planning, provided an overview of the Agency's performance metrics for the second quarter of fiscal year 2016. See "FRTIB Performance Measurement Report: 2nd Quarter Fiscal Year 2016" (attached). Ms. Vaughn Peck explained that measures report green when the Agency has met or exceeded its target, yellow when the Agency has met its threshold but is short of its target, and red if the Agency has fallen short of its threshold. Measures that are reported annually are blank in the quarterly report, and Ms. Vaughn Peck covers the report on an exception-only basis.

Ms. Vaughn Peck noted that reporting of the one-year FERS post-separation retention rate has been suspended due to an error in the underlying data, but the Agency believes it has identified and corrected the error and will resume reporting of this metric next quarter. She stated that three metrics moved from red to green: participant account information availability due to the resolution of an isolated system issue; withdrawals transactions due to improved performance even with an additional 4,000 withdrawals in January; and participant correspondence response rate due to a 13 percent increase in response rate despite a 22 percent increase in volume.

Ms. Vaughn Peck stated that three metrics reported yellow this quarter: F, C, S and I Funds investment due to one isolated incident when investment was performed three minutes late; call center availability due to a combined call center outage of five hours during a winter storm; and call center service level response time due to weather combined with increased call volume at year end for new retirements and tax questions. Ms. Vaughn Peck noted that current performance for call center availability is above the acceptable performance level of 98.8 percent. In response to an inquiry from Member Jasien, Ms. Wilder Guerin explained that there has not been a significant drop in call center volume because not all participants use the web, and those that prefer to call the Thrift Line call frequently. Mr. Long elaborated that the majority of calls received at the call centers are participants who want to withdraw money, as opposed to simpler transactions such as interfund transfers. Mr. Dowie noted the importance of the call centers to the many members of his association who do not have email addresses.

Ms. Vaughn Peck went on to report that the external audit finding closure rate is reporting red this quarter because two audit findings scheduled to close in March did not close. One closed subsequent to the end of the quarter, and Mr. Cragg explained that the other was delayed due to the large number of policies and procedures currently being drafted and revised. Mr. Cragg predicted that they would be completed by September, which will result in the closure of 13 audit findings. Ms. Vaughn Peck also noted that the four audit findings that did not close in the previous quarter have since been closed.

Finally, Ms. Vaughn Peck reported that the Enterprise Information Security & Risk Management strategic initiative has been closed, because all 19 of the required assessments and authorizations have been completed.

b. Project Activity Report

Ms. Vaughn Peck provided an update on the state of the Agency's projects (attached), which are also reported on an exception basis. Two projects are reporting yellow. The Agency is considering lessons learned from the Workload Management Initiative pilot, and that project will report yellow until the Agency decides whether or not it should move forward. The Omni System Upgrade project is reporting yellow, because current vulnerability mitigation planning, execution, and verification are threatening the May 28th deployment date, but appropriate mitigation strategies are being determined.

6. <u>ExPRESS Presentation</u>.

Ms. Robin Conner, Deputy Director of the Office of Participant Operations and Policy, provided information on ExPRESS (Expanding Participant Retirement Engagement, Services & Solutions). <u>See</u> "ExPRESS Presentation" (attached). She explained that the main objective of ExPRESS is to improve the participant experience by modernizing technology, adding channels of communication, providing self-service options, and raising the Plan's service delivery standards to those commensurate with contemporaries in the financial services sector. The ExPRESS project team has issued a draft Request for Proposals for a consolidated service center that works on a state-of-the-art, omni-channel, self-service, automated, anticipatory, fully integrated platform.

Ms. Conner discussed the key initiatives under ExPRESS that will facilitate the Agency's efforts to improve participant retirement outcomes: expanded participant access; availability, uptime, and capacity; end-to-end view of participant interactions; personalized engagement; process efficiencies; and participant security and trust. She highlighted the Participant Engagement Hub, a system of systems that integrates all of the technologies the Agency uses to serve participants with all of the communications channels to allow for an end-to-end view of participant interactions that will improve service.

Ms. Conner reviewed the three phases of the ExPRESS contract. The first phase is the phase-in, which is expected to last at least nine months so that the transition to the second phase, steady state, is seamless. The steady state phase should be a period of stability where all of the transformational goals of ExPRESS are planned and developed in preparation for the third phase in which those transformations are implemented. The second and third phases are encompassed by a contract with options up to eight years.

7. Blended Retirement Project.

Thomas Emswiler, Senior Advisor for the Uniformed Services, provided a report on the Blended Retirement project. See "Blended Retirement Project" (attached). He explained that currently, members of the uniformed services have to serve for 20 years to be eligible for a defined benefit pension, but only 17 percent of members serve for 20 years. Under the NDAA, Congress created Blended Retirement, which blends the defined benefit with new benefits including enhanced participation in the Thrift Savings Plan. The Agency has a cross-functional project team focused on implementing Blended Retirement, and they are working closely with DoD. Mr. Emswiler stated that beginning on January 1, 2018, the Agency must automatically enroll new uniformed service members into the Plan, as well as implement the new system for those members with fewer than 12 years of service who opt in to Blended Retirement. The Agency must also automatically reenroll members who opt out of auto-enrollment, accept agency automatic and matching contributions, and ensure that uniformed services members are defaulted to the age-appropriate L Fund upon enrollment.

Mr. Emswiler reported that in the first year of Blended Retirement, DoD estimates approximately 265,000 new recruits will be automatically enrolled in the Plan. The estimated number of uniformed service members with fewer than 12 years of service who might opt in to the Plan in 2018 ranges from 237,000 to 567,000; and an unknown additional number of uniformed service members may also enroll in the Plan without opting in to Blended Retirement as information about the TSP spreads throughout the military. Mr. Galing shared that DoD is developing four courses to educate the following groups about Blended Retirement: military leaders; members with fewer than 12 years of service at the end of 2017; the military's financial educators; and members who join after January 1, 2018.

Mr. Emswiler outlined the steps necessary for the Agency to implement Blended Retirement on January 1, 2018. The Agency is assessing the capacity of all systems and business units to prepare for a large increase in participants and transactions, and then will work to implement solutions to ensure the Agency can maintain its service standards. The Agency is also reviewing all contracts and modifying them as necessary to address the impact of additional participants. Finally, the Agency is updating internal operations, regulations, and procedures as needed.

Tanner Nohe, Project Manager for the Blended Retirement Project, next addressed three risks to implementing Blended Retirement on January 1, 2018. First, Congress has not yet decided whether contributions will be defaulted to a Roth or traditional TSP account. Mr. Nohe stated that the project team is currently determining the latest date it can receive this decision and still meet the deadline for implementation. Second, if any required modifications to Agency contracts are not made, that would be a risk to performance. The third risk is that the Agency will be ready by the deadline but payroll offices will not. Mr. Nohe reported that the project team is working closely with payroll offices to mitigate this risk. In response to an inquiry from Member Bilyeu, Mr. Nohe clarified that given the deadline mandated by the NDAA, Blended Retirement will be implemented under current systems prior to the rollout of ExPRESS, but the ExPRESS Request for Proposals contemplates the increased participant volume from Blended Retirement. Mr. Emswiler closed with a review of the timeline for completing the necessary steps in 2016 and 2017 in order to meet the January 1, 2018 deadline.

8. <u>Office of Communications and Education (OCE) Report</u>.

Mr. Courtney presented the "OCE Annual Board Report" (attached) and began by highlighting the work of OCE's training and agency liaison team, which educates participants across the country about the Plan and recently received overwhelmingly positive feedback from training attendees. Mr. Courtney next reported the results of OCE's 6-month survey of participants who logged into My Account on TSP.gov. OCE found that 96% of those individuals were able to find what they were looking for on My Account, and the most prevalent suggestions for improving My Account included: more graphs and charts; ability to reset password online; ability to check the status of submitted forms; ability to change contributions at TSP.gov instead of through payroll offices; a change to the two interfund transfers per month policy; and online investment advice.

Mr. Courtney discussed the Stay campaign that OCE launched in November to educate participants about keeping their savings in the TSP after leaving government service. He highlighted the features of the TSP.gov/stay microsite, including a video illustrating a letter of regret from a former participant and titled "Once You're Gone, You're Gone." Mr. Courtney also reported the results of a survey on the Stay microsite, which had over 130,000 views in the first four months and is the Agency's most viewed microsite ever. Many of the comments expressed appreciation for the information provided by the Stay campaign, but others criticized the Plan's withdrawal options and identified lack of withdrawal flexibility as the primary reason why they did or would not stay with TSP. Ms. Weaver noted that the Agency has developed proposed legislation to change the withdrawal options and is seeking support in Congress, and Mr. Sauber indicated that ETAC may be able to assist with that effort.

Mr. Courtney reported on the progress of the Financial Literacy and Education Commission (FLEC) pilot, through which agencies educate their employees directly about the TSP. Under this pilot, the Department of Labor recently identified which of its employees were contributing less than five percent of their salaries. They sent half of those employees an email reminding them of the matching opportunities they were forgoing and providing instructions on how to increase their contributions. Of those who received the email, 4.2 percent started contributing five percent or more, compared to 1.9 percent of those who did not receive the email. In response to an inquiry from Member Bilyeu, Debra Golding, who ran the FLEC pilot at the Department of Labor, explained that the results of the FLEC pilot have been shared with the other agencies that are part of the FLEC as well as those that are not. The FLEC is also working on phase two of its project to test additional types of emails to employees.

Mr. Courtney introduced the Agency's new Shining Star Award recognizing individuals and agencies who help TSP participants achieve better outcomes and retire with dignity, and he presented this award to the Employee Benefits Security Administration as the driving force behind the FLEC pilot.

9. Adjourn.

Whereupon, there being no further business for the ETAC, the following motion was made, seconded, and adopted without objection and Chairman Dailing adjourned the ETAC meeting at 10:19 a.m.

MOTION: That this meeting be adjourned.

Following ETAC adjournment, on a vote taken by the Chairman, the Board members closed the meeting at 10:19 a.m. for executive session.

At 1:38 p.m., upon completion of the executive session, the Board members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Kennedy adjourned the meeting at 1:38 p.m.

MOTION: That this meeting be adjourned.

Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. April 2016 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Measurement Report: 2nd Quarter Fiscal Year 2016
4. FRTIB Key Activity Report 2nd Quarter FY '16
5. ExPRESS Presentation
6. Blended Retirement Project
7. OCE Annual Board Report