



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 22, 2018

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 22, 2018, 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. In attendance were Dana K. Bilyeu of Oregon, member; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Ravindra Deo, Executive Director; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer, Deputy Executive Director, and Acting 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; 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 18, 2017 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the December 18, 2017 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 18, 2017 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 noted that the Agency processed a total of 36,500 roll-in checks totaling approximately \$1.33 billion. This represents a \$140 million increase from the previous year. The TSP also experienced a 12% increase in post-separation withdrawals for the year. This was primarily due to TSP participants reaching retirement age, which increased the overall pool of potential withdrawals. Mr. Ramos noted that the contact centers have experienced difficulties meeting service levels. Callers are experiencing longer wait times, which is resulting in higher abandonment rates. Mr. Ramos primarily attributed this to the recently completed

infrastructure upgrades that allowed the contact centers to receive more calls and changes to internal processes that increased call handle time. The contact centers increased staff in anticipation of the higher call volumes, but will need to further increase contact center staff to manage the volume of calls. Currently, the contact centers are staffed by approximately 280 individuals. OPS is planning to increase that number to roughly 320 individuals within the next 90 days. Finally, Mr. Ramos informed the Board that he would be modifying the Participant Activity Reports. Beginning next month, we will be removing a variety of redundant sections including Roth contribution information and adding new sections on transaction processing, contact centers, and Blended, among other things.

b. Legislative Report

Ms. Weaver reported that Congress was planning a vote at noon that could potentially end the government shutdown. She also noted that the FRTIB had posted fact sheets and other information about the shutdown on tsp.gov. Much of this information is already available on the site, but it was moved to Plan News so it is more readily accessible.

c. Monthly Investment Performance Report

Mr. Deo reviewed the monthly investment performance report. See "December 2017 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo reported that for the month of December, performance for the F, C, and I Funds was in line with the benchmark. The S Fund underperformed its benchmark by 5 basis points due to security selection and futures mis-tracking.

For 2017, the F Fund and S Fund outperformed their benchmarks by 31 basis points and 13 basis points, respectively, primarily due to securities lending. Additionally, the I Fund outperformed its benchmark by 44 basis points, primarily due to tax reclaims while the C Fund was in line with its benchmark.

For 2018, through Friday, January 19, the F Fund is down by 92 basis points. The C Fund is up 5.19 percent; the S Fund is up 4.16 percent; and the I Fund is up 4.95 percent.

3. Office of the Chief Financial Officer's First Quarter Budget Review.

Ms. Crowder provided a review of the FRTIB budget for the first quarter of FY18. See "FRTIB FY 2018 First Quarter Budget Review" (attached). She noted that budget execution of the budget allocation is currently behind the spend plan targets. However, she expects it to be more closely aligned with those targets by the end of the second quarter. She reported that of the total budget of \$309.7 million, roughly 31 percent was executed, which is about \$95.5 million. Approximately 59 percent of the total budget is allocated to support recordkeeping, operations, and maintenance. She also noted that

the Agency's budget rate of growth is outpacing the rate of growth of its average assets under management.

4. Office of Enterprise Risk Management Audit Update.

Mr. Boone provided an update of the Agency's audit remediation activity. He stated that the Agency has ranked all of its audit findings. Approximately 2 percent of the Agency's overall open findings are considered critical. The majority are moderate to low. Mr. Boone provided a high-level overview of the 23 audits completed, planned, and in progress during FY18. OERM expects that the fieldwork for each of these 23 audits can be completed by the end of FY18.

5. Office of Technology Services Update.

Ms. Tosini provided an overview of the Agency's remediation efforts with respect to its outstanding technology audit findings. See "OTS Update January 2018" (attached). The Agency is taking a risk-based approach to addressing audit findings, which begins with evaluating vulnerabilities using the Common Vulnerability Scoring System, which is the industry standard. Each finding will then be mapped to the appropriate NIST control family. Finally, OTS will determine the relationship between that finding and the FISMA maturity level. The result of this approach, for purposes of audit findings, is that vulnerabilities are likely to be addressed quickly, but that the audit finding likely will not close until the underlying issues have been addressed. She noted that the Agency will see a meaningful impact on audit findings when its focus transitions from upgrading hardware to upgrading its software applications.

Ms. Tosini then reported the status of the OTS security projects. OTS is on track to complete the following projects in FY18: implement mainframe security upgrades, encryption of data in transit across the enterprise, and modernize data center infrastructure. She also reported that the Agency will implement a Trusted Internet Connection (TIC) and Network Access Control (NAC) in FY18. The TIC will allow the Department of Homeland Security to monitor all of the Agency's internet traffic. The NAC will ensure that only FRTIB computers can be connected to the Agency's network. Both will enhance the Agency's overall IT security posture.

6. Annual Expense Ratio Review.

Ms. Crowder reported that the TSP ended 2017 with average net assets of \$509 billion. See "OCFO TSP Annual Review of Administrative Expenses" (attached). That is an increase of approximately 13 percent from the prior year. The Agency's administrative expenses remained relatively flat when compared with past years, primarily due to accruals and increased forfeitures. In 2017, the Agency had gross administrative expenses of \$231 million and net administrative expenses of \$164 million. For 2017, the gross administrative expense ratio was 4.6 basis points, and the net was 3.3 basis points, reflecting a decrease in the overall administrative expense ratio for 2017. Our cash flow for the year saw contributions increase by \$1.3 billion

related to the increase in roll-ins mentions earlier by Mr. Ramos, withdrawals also increased by \$2.4 billion, resulting in a reduction in our net cash flow of \$1.1B. However, the TSP ended the year with a positive net cash flow of \$9.7 billion.

7. Blended Retirement Update.

Mr. Ramos provided the Board with an update on the Blended Retirement Project. See "FRTIB Blended Retirement" (attached). Deployment started on Friday, December 29 and most code changes were input by December 30. To date, the Agency has processed 165 uniformed services payroll files with no issues. Based on the reporting received from the uniformed services, approximately 71,659 participants opted in as of January 12, and that number was closer to 80,000 as of the date of the Board Meeting. In response to a question from Board Member Jasien, Michael Jerue of the Office of Enterprise Planning indicated that it was too early to determine whether these numbers are in line with our projections, but they appear to be in line at this stage.

8. Vendor Financials.

Mr. Ahuja provided a report on the financial health of the Agency's key vendors. In preparing the report, Mr. Ahuja's team looked at changes in the vendors' financial health and any operational, reputational, or external risks that may impact the vendors' ability to meet their obligations to the FRTIB. This review looked at nine key vendors. See "Vendor Risk Assessment Memo" (attached). OERM found no indication that any of these vendors would be unable to fulfill their contractual obligations to the Agency. OERM will continue to monitor the status of these vendors on a quarterly basis and will report any changes to the Board.

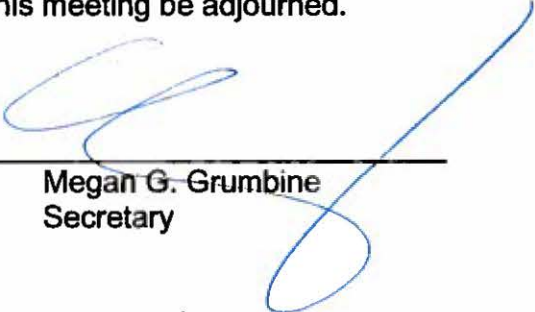
9. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 9:17 a.m for executive session.

At 12:44 p.m., upon completion of the executive session, the 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 12:44 p.m.

MOTION: That this meeting be adjourned.



Megan G. Grumbine
Secretary

Attachments

1. Thrift Savings Fund Statistics December 2017
2. December 2017 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB FY 2018 First Quarter Budget Review
4. Audit Findings Remediation Activity
5. OTS Update January 2018
6. OCFO TSP Annual Review of Administrative Expenses
7. FRTIB Blended Retirement
8. Vendor Risk Assessment Memo