



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

July 27, 2015

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on July 27, 2015, at 9:11 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; 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; Renée C. Wilder, Acting Director, Office of Participant Operations and Policy; Kimberly A. Weaver, Director, External Affairs; Susan C. Crowder, Chief Financial Officer; Jay Ahuja, Chief Risk Officer; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Communications and Education; Scott Cragg, Chief Technology Officer; Ravindra Deo, Chief Investment Officer; Karen Vaughn Peck, Acting Director, Office of Enterprise Planning; and Charles Bradshaw, Executive Advisor to the Executive Director.

1. Approval of the Minutes of the June 25, 2015 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the June 25, 2015 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 June 25, 2015 be approved.

2. Thrift Savings Plan (TSP) Activity Report.

Mr. Long gave opening remarks, including a brief summary of the agenda for the meeting. He noted that three plan design-related changes would be discussed: withdrawal flexibility, investment flexibility through the mutual fund window, and advice to participants.

Mr. Long also informed the Board of some leadership changes because of Mr. Thomas Emswiler's assignment to a project for the next several months. Ms. Wilder is temporarily acting as Director of the Office of Participant Operations and Policy, and Ms. Vaughn Peck is temporarily acting as Director of the Office of Enterprise Planning.

a. Monthly Participant Activity Report

Ms. Wilder reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). The Plan assets decreased in June by

approximately \$3.5 billion largely due to capital market declines. Uniformed services participation reached a high of 42.6 percent. The number of hardship withdrawals increased by 13 percent and reflects a similar seasonal increase in prior years. Ms. Wilder stated that withdrawals may end the year slightly lower than last year, but that remains to be seen.

b. Legislative Report

Ms. Weaver reported that as a result of hard work by FRTIB, the Employee Thrift Advisory Council, and others in meetings with congressional offices, the Senate is no longer considering changing the G Fund interest rate in order to fund the highway bill. In response to a question from Board Member McCray, Ms. Weaver expressed doubt that this issue would come back in the context of funding the highway bill but cautioned that Congress could bring it up again with respect to funding other bills.

Ms. Weaver also provided an update on the Department of Defense Authorization bill which would automatically enroll new uniformed services members in the TSP on a prospective basis at a contribution rate of 3 percent. She stated that both the House and Senate have named conferees on the bill, but the conference will likely conclude when both chambers are back in session after Labor Day.

c. Investment Policy Report

Mr. Deo reviewed the monthly investment performance report. See "June 2015 Performance Review – G, F, C, S, I, and L Funds" (attached). All of the TSP funds tracked the benchmarks for June. In June, the F Fund was down because of a climb in interest rates. Concern surrounding the possibility of Greece's exit from the Eurozone and volatility in the Chinese market resulted in a decline in the I Fund, though Mr. Deo noted that decline would have been larger if not for the weakness of the dollar. Fears about the Chinese economy also affected decreases in the C Fund and the S Fund.

Mr. Long noted from Mr. Deo's report that the quarterly proxy review found no exceptions and class action settlements had no new activity. Chairman Kennedy then 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, the 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.

3. Quarterly Reports.

a. Vendor Financials

Mr. Ahuja provided an assessment of the Agency's nine key vendors (attached). He explained that the Agency closely tracks the financial health for these vendors, and he does not anticipate any issues that would impact the level of service the Agency receives from these vendors resulting from a downturn in the vendor's health. In response to Board Member Bilyeu's expression of concern regarding Serco, Mr. Ahuja and Mr. Walther reported that the Agency is tracking Serco's financials carefully and has communicated with Serco, who has provided assurances regarding its ability to serve the Agency.

b. Audit Status

Mr. Ahuja provided an update on Agency audit activity for Fiscal Year 2015, which includes 20 external audits. See "FY 2015 External Audit Activity" (attached). Of the 20 external audits, 3 have been completed, 10 are being managed concurrently, and 7 are upcoming. Mr. Ahuja reported that of the 113 total open audit findings, the Agency considers 77 closed and has a timeline to resolve those that remain. In response to a question from Board Member Bilyeu, Mr. Ahuja explained that most of the audit findings the Agency closed are related to IT issues, and Mr. Long clarified that although the audits cover all Agency operations, the majority of the audits have been focused on the IT operations that support business functions.

c. Budget Review

Ms. Crowder stated that as of the end of the third quarter of Fiscal Year 2015, the Agency is aligned with the projected \$207 million budget allocation and

the anticipated expense ratio is below the Agency's target. See "FRTIB FY 2015 Q3 Budget Review" (attached). Responding to Chairman Kennedy's inquiry about the possibility of a budget surplus for the fiscal year, Ms. Crowder indicated that the Agency is looking for ways to reduce the budget ask for next year but also noted that there are a number of acquisitions planned for the fourth quarter that may require the remainder of the budget allocation.

d. Project Activity Report

Ms. Vaughn Peck provided an update on the state of the Agency's projects (attached). There are 16 active projects and 8 that have closed this year. This report now includes a performance indicator, which is a combination of schedule and cost-tracking metrics. Of the 16 active projects, all are tracking green except for 3 yellow, and those teams are taking steps to bring those projects back in line. In response to a question from Board Member Jasien, Ms. Vaughn Peck further explained that the projects with an entry in the portfolio column of the report are those funded under strategic initiatives, while the remaining projects are considered steady state.

4. Withdrawal Options.

Mr. Long discussed the memo, "TSP Withdrawal Options" (attached), which recommends the Board's approval of additional flexibility to make partial withdrawals from TSP accounts, both in-service and post-separation. These recommendations address the challenge of a large percentage of recently separated participants taking full withdrawals as well as feedback from participants requesting greater flexibility. The proposed rules – specified on pages 4 and 5 of the memo – would allow for multiple partial in-service and post-separation withdrawals, where the current rules allow for only one. In response to a question from Board Member McCray, Mr. Long noted that participants currently have the ability to withdraw all of their money and take it elsewhere, so there is little downside to allowing them to withdraw part of their money more than once. He also stated that the purpose of the recommended rule changes is to improve outcomes for participants who are currently moving their money to plans with less advantageous designs because they are unable to make multiple withdrawals from their TSP accounts.

Mr. Long explained that these changes would require legislation followed by an Agency project, so this is not an immediate change. Board Members Jasien and McCray emphasized the importance of educating participants about the effect of withdrawals on their ability to accomplish retirement goals. Chairman Kennedy, Mr. Long, and Mr. Walther discussed the increased Agency workload that would result from these changes – especially given the interrelatedness between the withdrawal flexibility, mutual fund window, and investment advice – and steps the Agency will take to address this from both budget and project management perspectives.

Chairman Kennedy then entertained a motion regarding withdrawal options. The Board members made, seconded, and adopted the following motion by unanimous vote:

MOTION: That the Agency should proceed with a project to adopt the changes to the withdrawal rules proposed on pages 4 and 5 of the memo titled, "TSP Withdrawal Options," with the understanding that such changes are goals that will require legislation.

5. **Mutual Fund Window Option.**

Veronica Mance, Strategic Planning Policy Officer in the Office of Enterprise Planning, presented a memo titled, "Mutual Fund Window Option" (attached) to the Board. After summarizing the Agency's previous two reports on this topic, Ms. Mance explained that the Agency estimates that implementation of the mutual fund window will cost approximately \$6.7 million, most of which would be spent modifying TSP systems and financial reporting, and will take 15 months. That timeframe would not begin, however, until after procurement of a platform and such time as the Agency determines it has the resources to devote to the project relative to other priorities. Ms. Mance recounted the benefits and potential drawbacks of implementing a mutual fund window, ultimately stating the team's recommendation that the project move forward because of two benefits: account retention and protection of the core investment menu.

In response to comments from Board Member McCray, Mr. Long and Mr. Walther discussed how the capabilities to make the mutual fund window understandable to participants, including a clear message from the communications team, website, and call centers, will all need to be in place before the window is rolled out. Board Member Bilyeu expressed interest in the Board understanding and approving the high-level rules for the mutual fund window given their roles as fiduciaries, and Mr. Long agreed to present this information to the Board in more detail at subsequent meetings.

Board Member Jasien explained that although he had some initial reservations about adding the mutual fund window, ultimately he concluded that its ability to protect the core menu makes it worthwhile. Mr. Long expressed the Agency's high confidence that there will be no negative financial impact on participants who do not go through the window, and very clear communications regarding its impact will be provided to those that do, such as a fee to participate, higher fees within the funds, and lack of screening of those funds. Board Member Jones reiterated Chairman Kennedy's earlier point regarding the interdependence between the three plan design-related changes being discussed, and Mr. Walther explained that the use of portfolios in project planning was one way to manage initiatives that are related. Addressing an inquiry from Chairman Kennedy, Mr. Long clarified that the mutual fund window platform will include categories for participants looking to invest in certain types of funds. Chairman Kennedy noted that it is important to emphasize that the Agency is adding a mutual fund window to enhance the TSP for participants, not to retain assets.

Chairman Kennedy then entertained a motion regarding the addition of a mutual fund window. The Board members made, seconded, and adopted the following motion by unanimous vote:

MOTION: That the Agency should add a mutual fund window option to the TSP subject to the Board's review of the rules concerning the structure and communication plan for the option.

6. Investment Management Consultant Selection Criteria.

Mr. Long summarized a memo titled, "Criteria for the Selection of Investment Management Consultant(s)" (attached), which includes both minimum qualifications for vendors that provide investment consulting services as well as criteria the Agency would use to evaluate those vendors. In response to a question from Board Member Jones, Mr. Deo clarified that the budgetary impact of taking this approach should be neutral.

Chairman Kennedy then entertained a motion to approve the criteria discussed. The Board members made, seconded, and adopted the following motion by unanimous vote:

MOTION: That the Board approves the minimum requirements and evaluation criteria specified in the memo titled, "Criteria for the Selection of Investment Management Consultant(s)."

7. Impact of Proposed Changes to G Fund.

Mr. Deo presented the report titled, "Review of Impact from Proposed Changes to G Fund on TSP Fund Line Up" (attached). This report resulted from the previously mentioned efforts by Congress to change the G Fund interest rate to the weighted average of T-Bills with a maturity date of three months in order to fund the highway bill. Although that effort was defeated, Ms. Weaver expects that this will come up again in other contexts, and Mr. Deo highlighted that while Congress's proposed change would have been generally harmful to TSP participants and beneficiaries, it would have most likely been most detrimental to participants closest to retirement. Mr. Deo explained that the Agency's investment consultant examined three alternatives to the G Fund – stable value, TIPS, and short-term US government funds – and determined that none were viable alternatives because of issues with liquidity, risk, or both.

8. Investment Advice.

Mr. Long began an initial discussion regarding provision of investment advice, emphasizing that this is likely to be the first of a series of discussions on this topic. Mr. Long summarized the memo titled, "AON Hewitt Report on Advisory Services

for the TSP" (attached), which itself is a summary of the underlying report (also attached). He explained that there are two types of investment advice available in the marketplace: self-service and managed accounts. Self-service advice is an online tool in which participants enter information which the tool uses to suggest a change in deferral rate or allocation, and the participant executes that advice. Managed accounts use the same underlying calculator, but a participant communicates with a live person who provides the advice and executes the changes. The costs of managed accounts are significantly higher than self-service and generally would be paid by participants when they used the managed accounts feature, whereas the costs of self-service generally would be borne by the plan. While the report found that providing advice would be beneficial to participants and beneficiaries, Mr. Long noted that it would require the Board to oversee the advice provided as part of their fiduciary responsibilities. In response to a question from Board Member Bilyeu, Mr. Petrick stated that the Agency's assumption is that the advisors will be fiduciaries as well. Mr. Courtney described the market research that the Office of Communications and Education has conducted thus far, and the Board Members expressed their general approval for the Agency to continue its research on this topic and come back to the Board with more specifics in the future.

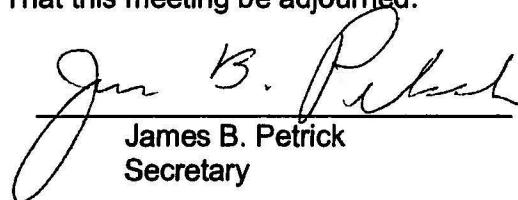
9. Adjourn.

On a vote taken by the Chairman, the members closed the meeting at 11:23 a.m. for executive session.

At 12:32 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 12:32 p.m.

MOTION: That this meeting be adjourned.



James B. Petrick
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. June 2015 Performance Review – G, F, C, S, I, and L Funds
3. Quarterly Vendor Financial Assessment
4. FY 2015 External Audit Activity

5. FRTIB FY 2015 Q3 Budget Review
6. FRTIB Key Activity Report 3rd Quarter FY2015
7. TSP Withdrawal Options
8. Mutual Fund Window Option
9. Criteria for the Selection of Investment Management Consultant(s)
10. Review of Impact from Proposed Changes to G Fund on TSP Fund Line Up
11. AON Hewitt Report on Advisory Services for the TSP
12. Review of Investment Advisory Services for the Thrift Savings Plan (TSP)