



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

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

May 31, 2017

Michael D. Kennedy, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 31, 2017, 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 by telephone; David A. Jones of Connecticut, member; William S. Jasien of Virginia, member; Ravindra Deo, Acting Executive Director and Chief Investment Officer; Megan G. Grumbine, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; 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; Renita Anderson, Chief Technology Officer; Tee Ramos, Director, Office of Participant Services; and Renée C. Wilder Guerin, Director, Office of Enterprise Planning. In attendance for the Employee Thrift Advisory Council (ETAC) were Chairman Clifford Dailing, National Rural Letter Carriers' Association; Vice Chairman James Sauber, National Association of Letter Carriers; Lateefah Williams, National Association of Government Employees; Cathy Ball, National Treasury Employees Union; Jacqueline Simon, 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.; John Seal, Senior Executives Association; and Ivan Butts, National Association of Postal Supervisors.

1. Welcome and Introductions.

Chairman Kennedy called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 8:31 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 and provided an update on the search to hire a new Executive Director. The Board members and ETAC members introduced themselves.

2. Approval of the Minutes of the April 24, 2017 Board Member Meeting.

Chairman Kennedy entertained a motion for approval of the minutes of the April 24, 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 April 24, 2017 be approved.

3. **Approval of the Minutes of the November 14, 2016 ETAC Meeting.**

Chairman Dailing entertained a motion for approval of the minutes of the November 14, 2016 ETAC meeting. The motion was made, seconded, and adopted without objection by the ETAC.

4. **Monthly Reports.**

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

a. Monthly Participant Activity Report

Mr. Ramos reviewed the monthly participant activity report. See "Thrift Savings Fund Statistics" (attached). The Roth participation rate has increased to 940,000 participants, or 18 percent of the total population of the plan. The FERS participation rate has climbed to just over 90 percent and the Uniformed Services participation rate has continued to increase to 46.9 percent. Mr. Ramos concluded his report by providing an update to the power outage and fire at the Frostburg call center and describing lessons learned from the event.

b. Legislative Report

Ms. Weaver reported that the President's proposed budget for Fiscal Year 2018 included changes to the Federal Employees' Retirement System ("FERS"). These changes included an increase in contributions for the defined benefit portion of the retirement system, a reduced cost of living adjustment, and the elimination of the FERS supplement paid to employees who retire at their minimum retirement age. Ms. Weaver stated that these changes had the potential to negatively affect Federal employees' ability to save money with the TSP. Ms. Weaver also noted that she had been assured by OMB staff that no changes to the G Fund interest rate were included or assumed in the President's budget proposal.

c. Monthly Investment Performance Report

Mr. Deo reviewed the monthly investment performance report. See "April 2017 Performance Review – G, F, C, S, I, and L Funds" (attached). Mr. Deo noted that for the month of April, the F and S Funds were ahead of the benchmark by 4 basis points, primarily due to securities lending, while the I Fund was ahead of the benchmark by 8 basis points, primarily due to tax reclaims. Mr. Deo stated that the C Fund matched the benchmark.

Mr. Deo continued his report stating that for the year-to-date returns, the F and S Funds were ahead of the benchmark by 17 and 4 basis points, respectively, primarily due to securities lending, while the I Fund is ahead of the benchmark by 20 basis points, primarily due to tax reclaims. Mr. Deo noted that the C Fund has outperformed the benchmark by only 1 basis point.

Mr. Deo continued his report noting that interest rates declined during the month of April on concerns of future economic growth. This, in turn, increased returns for the F Fund. The C and S Funds showed returns, largely because of corporate earnings. Mr. Deo reported that the I Fund had the strongest returns of the month due to the continued decline in the U.S. dollar. Mr. Deo concluded his report stating that for the month-to-date returns, the F Fund is up 71 basis points, the C Fund is up 1.44 percent, and the I Fund is up 3.38 percent, while the S Fund is down 84 basis points.

5. Quarterly Reports.

a. Metrics Report

Mr. Geoff Nieboer, Chief of Business Intelligence, provided an overview of the Agency's performance metrics for the 2nd quarter of fiscal year 2017. See "FRTIB Performance Measurement Report: 2nd Quarter Fiscal Year 2017" (attached). Mr. Nieboer 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. Mr. Nieboer stated that the report is covered on an exception-only basis.

Mr. Nieboer reported that the Agency did not meet its target for participant account information availability because of a bug in the record keeping software that caused processing to be delayed. He noted that the vendor was aware of the bug and a work-around was in place until it could be fixed. Mr. Nieboer also reported that the Agency did not meet its target for the F, C, S, and I Fund investment because on one day, the Agency received an e-mail confirmation two minutes late.

Mr. Nieboer noted that despite higher than normal call volume, call center numbers continue to rebound from their dip in February due to outages, which have since been resolved. Mr. Nieboer highlighted Agency efforts to improve participant customer service experience by increasing call center staff, ThriftLine capacity improvement projects, and implementing a more robust telephone exchange system to replace the legacy system.

Mr. Nieboer next reported that external audit finding closure rates failed to meet its threshold, despite a nearly 10 percent increase from the previous quarter. Mr. Nieboer explained that as a result of re-prioritization, however, the Agency has submitted closure packages for 22 security-related recommendations in the current quarter, none of which were originally scheduled to close during the quarter. Mr.

Nieboer then reported that the FERS participation rate fell just short of its quarterly target of 90 percent but there is hope that the target will be met because the participation rate has recently gone over 90 percent on a monthly basis. Mr. Nieboer concluded his report by stating that the FERS fully matching rate missed its target and that there has not been any significant changes in participant behavior for the last quarter and that this metric is being calculated differently in this report and in the future.

b. Project Activity Report

Mr. Steve Huber, EPMO Chief, provided an update on project activity at the Agency. See "FRTIB Key Activity Report 2nd Quarter FY 17" (attached). Mr. Huber reported that Form TSP-3 redesign project was completed last month and that 9 of 11 initiatives in the Great Place to Work portfolio will begin in the near future.

6. Blended Retirement Update.

Thomas Emswiler, Senior Advisor for the Uniformed Services, provided a report on the Blended Retirement project. See "Blended Retirement Project" (attached). Mr. Emswiler reported that the Department of Defense ("DoD") created a new training course for Service members eligible to opt-in to the Blended Retirement System ("BRS") and that over 160,000 members have enrolled on the Joint Knowledge Online training website with additional enrollment on service-specific websites. Mr. Emswiler stated that the project team is going to begin testing with the uniformed services in July, giving the Agency and the Services five months to address issues accordingly. Mr. Emswiler reported that DoD would make their opt-in calculator public on June 6. Mr. Emswiler reported that there has been great work done and that there has been a good relationship between the Agency and the Services.

Tanner Nohe, Project Manager for the Blended Retirement Project, provided an update on the project status. Mr. Nohe reported that the Agency successfully deployed the opt-in part of the system programming update. Mr. Nohe then reported that as a result of capacity testing, there was remediation necessary and that most of the remediation has been completed and will be tested through July. Mr. Nohe then described the 5<sup>th</sup> phase that was added to the project to account for rehired Uniformed Services participants, and that the bulk of the IT work would be finished in July. Mr. Nohe provided a high level schedule of the project and described the risks in the project, noting the risks surrounding the payroll offices not being ready by January 1, 2018 and updates to the ThriftLine not being completed. Mr. Nohe expressed confidence that the project will be completed by January 1, 2018.

7. IT Update.

Ms. Anderson provided an update on IT security remediation. See "IT Security Remediation Brief" (attached). She explained that the current IT structure is a combination of several software application systems. Ms. Anderson began her report describing efforts to modernize the IT infrastructure. Specifically, the Agency has

purchased hardware and installed a significant amount of network equipment both for storage and servers. The Agency is also currently establishing standard operating procedures to improve management accountability.

Ms. Anderson then reported on the Agency's IT security audit mitigation. In her report, she stated that the Agency had installed hardware to back-up the data centers, documented policies and procedures, tested applications, and tied primary and secondary data centers. Ms. Anderson also noted that the Agency was well postured and not adversely affected by the recent ransomware attacks.

Next, Ms. Anderson provided an update that the Agency is working on increasing capacity at the call centers by implementing changes to the hardware, software, and network equipment while also re-routing calls through the data center rather than directly to the call center.

Ms. Anderson continued her report describing the Agency's implementation of SPLUNK, an IT data analytics, logging, and security monitoring enhancement. The tool provides insight and visibility in terms of the type of data in the Agency's systems and where it is going. The tool then allows for analytics on the data and who it's being sent to. Lastly, Ms. Anderson briefly discussed the Agency's implementation of two-factor authentication.

#### 8. L Funds "To" vs "Through" Study.

Sean McCaffrey, Deputy Chief Investment Officer, and Jay Love and Andrew Scheufele, Mercer Investment Consultants, provided a report on the L Funds "To" vs. "Through" retirement approach. See "Thrift Savings Plan Lifecycle Funds Asset Allocation: To vs Through Design Board Summary May 2017" (attached). Mr. McCaffrey began his report describing the L Fund review process that led to this study.

Mr. Love provided background on the L Fund design and alternatives. Specifically, he discussed the L Fund concept as essentially a form of target date funds where the asset allocation is adjusted to generate as much return as possible while remaining cognizant of the risk that a participant is exposed to in relation to the participant's age. Mr. Love then distinguished between a "to" design where a participant is fairly confident about the amount of assets available at the time of retirement and a "through" design where the target date is some amount of time past retirement. Mr. Love then described that the industry standard has shifted over time from a "to" design to a "through" design.

Mr. Scheufele then provided insight into the design study. He started by noting that part of the study was looking at what participants are electing at retirement in the years immediately following retirement and assess what impact that might have on the design of the L Funds. He noted that, in general, if most participants are taking their money out at retirement or in the year or two immediately after retirement, then it is more typical to see a "to" design. In contrast, those participants that remain invested post-retirement would typically want to see a "through" design.

Mr. Scheufele discussed the findings of the study. Specifically, he noted that participants between the ages of 55 and 69 largely remain invested in the plan while those age 70 or older begin to make withdrawal elections. Mr. Scheufele noted that as part of the study, alternative glidepaths were created that pushed the target date out 5, 10, and 15 years. Mr. Scheufele reported that while the alternative glidepaths were more likely to increase income replacement rates and decrease the likelihood of running out of retirement assets, they also increased the likelihood of seeing a decline in retirement assets in the final 2 years approaching retirement. Mr. Scheufele summarized by stating that based on the findings of the study and despite additional considerations such as the costs of implementing a "through" design, Mercer recommends shifting the L Funds from a "to" design to a "through" design.

Mr. McCaffrey then stated that the Office of Investments is recommending that the L Funds maintain their current "to" design and that the Agency conduct further study on the matter in light of changes that will occur as a result of BRS. Mr. McCaffrey also noted further areas of study such as focusing on participants invested solely in the L Funds as opposed to the entire TSP population. Mr. McCaffrey also noted that the study should reflect that the average participant retirement age has changed from age 61 to age 62. Mr. McCaffrey and Mr. Scheufele then engaged in discussion with the ETAC members about the effect that a new design would have on participants leaving assets in the plan and striking a balance between generating returns and reducing exposure to risk. Mr. McCaffrey concluded this discussion responding to Chairman Kennedy's request that more information be presented to the Board within the next year.

#### 9. TSP Investment Options Study.

After a short break, Mr. McCaffrey along with Bill Ryan and Russ Ivinjack, Aon Hewitt Investment Consultants, provided a report on the TSP Investment Options Study. See "Investment Option Review" (attached). Mr. Ivinjack began his presentation by providing that an investment option structure is basically the number and types of investments that a plan offers to its participants. Mr. Ivinjack noted that currently, the TSP offers 10 investment options, if you include the L Funds separately, or 6 options, if the L Funds are considered a single investment option. Mr. Ivinjack stated that in terms of the TSP, there is a sufficient range of investment options to meet participants' needs for risk and return. Furthermore, Mr. Ivinjack noted that the TSP has a sufficient investment structure and that the hallmark of the TSP's investment program is its simplicity and efficiency.

Mr. Ryan then detailed the individual funds that are offered. It was noted that there are roughly 11 asset classes not exposed in the TSP today and that it was recommended to include two of them, emerging markets and non-U.S. small-cap equities. Mr. Ryan stated that these two asset classes would improve diversification and risk posture by including them in an expansion of the I Fund. Mr. Ryan also recommended moving to 5-year increments from 10-year increments in the L Funds

which would allow participants to choose an efficient portfolios that more closely matches their needs. Additionally, this approach makes it easier for plans that default participants into a target-date fund to decide which fund to place a participant in based upon their age.

Mr. McCaffrey summarized the report from Mr. Ivinjack and Mr. Ryan, stating that their recommendations were to expand the I Fund to include emerging market equities, including Canada in developed market equities, including non-U.S. small-cap equities and to shift to 5-year increments for the L Funds. Mr. McCaffrey, responding to a question from Ms. Thomas, noted that the Agency is currently planning to implement the 5-year L Funds by 2020 and to further study the I Fund expansion to determine the best time to implement that recommendation. The following motions were then made, seconded, and adopted without objection:

MOTION: That the L Funds be added in 5-year increments starting in 2020.

MOTION: That the Agency move forward with exploring changing the I Fund benchmark index through an index study and then coming up with a recommendation for potentially what the index would be.

10. Office of Communications and Education Annual Report.

Mr. Courtney provided the annual report of the Office of Communications and Education ("OCE"). See "Office of Communications and Education Annual Report" (attached). Mr. Courtney began his presentation describing the mission and function of OCE, highlighting their completion of 475 training events this year.

Mr. Courtney then described some of the initiatives that have happened since the last annual report. Specifically, he noted that OCE launched a Facebook page in September 2016. Mr. Courtney described the engagement Facebook offers with participants, specifically the ability to disseminate information related to plan operations. Mr. Courtney also noted the opportunities Facebook provides related to receiving feedback from participants and engaging in discussion with participants. Mr. Courtney described instances where Facebook posts have led to discussion not only between the TSP and participants but between the participants themselves.

Mr. Courtney then described efforts OCE has undertaken to celebrate the 30<sup>th</sup> anniversary of the TSP. He noted that OCE developed videos of participants describing their own experiences with the TSP. Mr. Courtney then showed two videos developed for the 30<sup>th</sup> anniversary microsite on TSP.gov, as well as for social media. Mr. Courtney described the new quarterly information packet that is sent to ETAC members for their use in newsletters and websites. Mr. Courtney concluded his presentation describing some of the initiatives that OCE has started to more efficiently reach federal employees from the first day of employment including the formation of a

working group between the Agency and approximately 20 human resources officers, creation of a TSP onboarding video for new hires, and , and potentially starting a webinar for employees who are 4-6 months into their Federal jobs.

11. Concluding Remarks.

The ETAC representatives concluded their business and commended Greg Long for his exemplary service as the former Executive Director of the Agency.

12. 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 11:16 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 11:16 a.m. for executive session.

At 1:36 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 1:36 p.m.

MOTION: That this meeting be adjourned.



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Megan G. Grumbine  
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. April 2017 Performance Review – G, F, C, S, I, and L Funds
3. FRTIB Performance Measurement Report: 2nd Quarter Fiscal Year 2017
4. FRTIB Key Activity Report 2nd Quarter FY 17
5. Blended Retirement Project
6. IT Security Remediation Brief

7. Thrift Savings Plan Lifecycle Funds Asset Allocation: To vs Through Design Board Summary May 2017
  - a. Presentation
  - b. Memo
8. Investment Option Review
  - a. Presentation
  - b. Memo
9. OCE Annual Report