FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
1250 H Street, NW Washington, DC 20005

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 21, 2003

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on January 21, 2003, at 9:00 a.m., Eastern Standard Time. The meeting was open to the public at the Board's offices at 1250 H Street, N.W., Washington, D.C. In attendance were Thomas A. Fink of Alaska, member; Alejandro Sanchez of Florida, member; Gordon J. Whiting of New York, member; James B. Petrick, Executive Director (Acting); and Elizabeth S. Woodruff, Secretary. Other agency representatives attending were Thomas J. Trabucco, Director, External Affairs, and Lawrence Stiffler, Director, Automated Systems. An agenda for the meeting is attached.

1. Approval of the minutes of the December 16, 2002, Board member meeting.

Chairman Saul entertained a motion for the approval of the minutes of the open portion of the December 16, 2002, Board member meeting. The following motion was then made, seconded, and adopted without objection:

> MOTION: That the minutes of the open portion of the Board member meeting held on December 16, 2002, be approved.

2. Thrift Savings Plan activities report by the Executive Director.

a. December 2002 TSP performance review.

At the December 16, 2002, meeting, the Board members requested that the Executive Director (Acting) begin monthly reviews of the performance of the TSP's five funds and participation rates. Accordingly, Mr. Petrick reviewed key aspects of the December 2002 performance of the G, F, C, S, and I Funds (attached). Mr. Petrick also discussed TSP participation rates as of the close of 2002.

Mr. Saul requested that, at the Board members' February meeting, Board staff give the Board members an overview of

the Plan and how various processes will change with introduction of the new record keeping system. Mr. Sanchez requested that the presentation specifically cover the efforts being made to bring uniformed services participants into the TSP; he also asked that Board staff contact the Office of Personnel Management to determine whether that office could give the agency each month information upon which staff could calculate CSRS participation rates.

b. Board member meeting schedule.

Mr. Petrick reminded the Board members that tentative plans had been made for a March Board member meeting at the National Finance Center in New Orleans. The Board members decided to postpone a trip to New Orleans until fall of 2003. The Board members also requested that representatives of Barclays' Global Investors, managers of the F, C, S, and I Funds, be invited to make a presentation at the March Board member meeting.

c. Fiduciary insurance.

At the December 16, 2002, Board member meeting, Mr. Petrick had raised the issue of a statutory amendment to the Federal Employees' Retirement System Act that would allow the TSP to use the monies in the TSP insurance fund to pay claims directly, given the high cost of fiduciary insurance for 2003 and general lack of industry interest in providing such coverage. Mr. Saul had requested that Board staff survey the insurance market before the Board proceeded further. Mr. Petrick presented a market survey prepared for the Board by Marsh USA, Inc. After a brief discussion, the Board members requested that Board staff prepare a written report addressing staff's recommendations.

d. Legislation.

Mr. Petrick reported that Congress had convened the first session of the 108th Congress but that he did not expect much activity until after the President delivered the State of the Union speech on January 28th. Also, the President's budget was due to be delivered to Congress on February 3, 2003. With respect to activities related to the TSP, on January 9th, the President nominated Terrance Duffy as a member of the FRTIB to replace Mr. Lukins. Mr. Petrick expects the Senate to act on the nominee shortly.

3. New system development.

The Board's Director of Automated Systems, Lawrence Stiffler, discussed the status of the new record keeping system's development. Mr. Stiffler advised the Board members that the software modifications necessary for the file set split had been completed, approximately three weeks ahead of schedule. Current design efforts are being concentrated in the area of reporting. The MATCOM team has begun system and limited parallel testing, which will continue through March, when it is planned that the user acceptance test will begin. Training of Board and NFC staff will also begin in March and continue until the system goes into production. The system could go into production as early as May; however, an implementation date can only be determined after the system has been fully tested.

Mr. Fink questioned whether there would be additional costs associated with the current work. Mr. Petrick and Mr. Stiffler advised the Board members that currently there was no reason to anticipate that costs would exceed those approved by the Board in November and that Mr. Stiffler would report to the Board members if there was any significant change in anticipated costs.

4. Department of Labor presentation.

Ann L. Combs, Assistant Secretary for Pension and Welfare Benefits, Department of Labor, had requested a meeting with Board members in June and September 2002. At the December 16, 2002, meeting, the Board members extended an invitation to Ms. Combs to present remarks at the Board's January meeting. Representing the Department of Labor were Ms. Combs, Timothy Hauser, Associate Solicitor, Alan Lebowitz, Deputy Assistant Secretary for Program Operations, and Ian Dingwall, Chief Accountant.

Ms. Combs explained that the Department of Labor historically had an excellent relationship with Board staff. However, they had become concerned with certain matters related to the Executive Director's suit against American Management Systems, Inc., particularly the agency's decision to retain private counsel, and with the Executive Director's decision not to charge participant accounts immediately with $41 million in costs associated with the AMS contract. She explained that the Labor Department is examining these issues in its current audit. She expressed her confidence that the Board would now deal with these issues and offered her and the Department of Labor's assistance.

Mr. Saul thanked Ms. Combs for her offer of assistance and explained that the Board members take their responsibility to the TSP participants and beneficiaries seriously. Mr. Fink explained that he was comfortable with the resolution of the accounting issue, particularly since the agency's outside auditors had approved the decision. Furthermore, he believed that Congress intended for the agency to be independent and that the Board should therefore have the right to sue without the involvement of the Department of Justice; he expressed his concern with DOJ representation based on the DOJ's belief that its primary obligation was to the United States and not to TSP participants and beneficiaries.

Mr. Hauser said that he believed that the agency's legal argument for independent litigation authority was not compelling and that it was premature to assume that the DOJ's assessment and handling of the suit would not be aligned with that of the Board. Mr. Saul stated that the Board had directed the General Counsel to pursue these issues with the DOJ and that the Board would be fully briefed by counsel.

5. Litigation.

The meeting was closed for a discussion of pending litigation, on a vote taken by the Secretary before the meeting. Board members Saul, Lukins, Whiting, and Sanchez voted to close this portion of the meeting; Member Fink did not cast a vote. Present at this portion of the meeting were the Board members, the Executive Director (Acting), and the Secretary to the Board. The representatives of the Department of Labor were invited to participate in this discussion in order to explain the Department's concerns regarding the agency's position in the litigation.

6. Personnel matter.

The meeting was also closed for a discussion of personnel matters, on a vote taken by the Secretary before the meeting. Board members Saul, Lukins, Whiting, and Sanchez voted to close this portion of the meeting; Member Fink did not cast a vote. Present at this portion of the meeting were the Board members, the Executive Director (Acting), and the Secretary to the Board.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection, and Chairman Saul adjourned the meeting at 12:55 p.m.:

MOTION: That this meeting be adjourned.

Elizabeth S. Woodruff

Attachments

February 20, 2003

Note: A verbatim transcript of this meeting was made by BETA reporting services.