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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

March 21, 2005

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on March 21, 2005, at 9:08 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; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Terrence A. Duffy of Illinois, member (by telephone); Gary A. Amelio, Executive Director; and Thomas K. Emswiler, Acting Secretary. Other agency representatives attending were David L. Black, Director, Accounting; Susan L. Smith, Acting Deputy Director, Administration; Lawrence Stiffler, Director, Automated and Systems; Pamela-Jeanne Moran, Director, Office of Benefits Services; Thomas J. Trabucco, Director, External Affairs; and James B. Petrick, Director, Office of Investments. Also in attendance were officials from the Department of Labor, KPMG LLP, Mercer Investment Consulting, Inc., and CitiStreet.

1. Approval of the minutes of the February 22, 2005, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the February 22, 2005, Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board member meeting held on February 22, 2005, be approved.

Mr. Saul entertained a motion for approval of the amended minutes of the January 19, 2005, Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board member meeting held on January 19, 2005, be approved as amended.

2. Department of Labor audit program.

Ms. Moran and Mr. Petrick reviewed with the Board members the findings and recommendations contained in the four audit reports that were produced by the Department of Labor (through its contractor KPMG LLP) during its FY 2004 program of fiduciary compliance audits. The four reports were: Review of the Thrift Savings Plan Loan Operations at the United States Department of Agriculture National Finance Center, June 11, 2004; Review of the Thrift Savings Plan Account Maintenance, Forfeiture, Forfeiture Restoration and Interfund Transfer Processes at the United States Department of Agriculture National Finance Center, June 11, 2004; Review of the Thrift Savings Plan Annuity Operations at the Metropolitan Life Insurance Company, July 9, 2004; and Review of the Thrift Savings Plan Participant Support Process at the United States Department of Agriculture National Finance Center, June 11, 2004.

Mr. Whiting asked what happens when the Agency non-concurs with a recommendation of the auditor. Ms. Moran said that it seldom occurs but that such items have usually stayed open on DOL's books until it reexamines the issue.

Mr. Saul inquired about the problem that had been identified regarding rollovers into the TSP. Ms. Moran explained that the principal problem had been obtaining the required information from financial institutions. She discussed how the TSP has refined its procedures by expanding the type of information the TSP will accept and stopping the practice of cashing checks that arrive without a rollover form. Mr. Saul also asked how the introduction of the lockbox has affected rollover procedures. Ms. Moran explained that the checks and forms are still processed through the NFC. Once the NFC has both, it forwards them to the lockbox. A further refinement is that we will now return checks after fifteen days if they are not accompanied by a form.

Mr. Sanchez inquired about the audit findings that were critical of MetLife regarding missing files and the lack of secondary annuity calculations. Mr. Petrick noted that MetLife had had similar problems in the past. It had fixed the problems, but they have recurred; the problems appear to be related to a new record-keeping system MetLife implemented 2-3 years ago. Mr. Amelio (along with several staff members) will be visiting MetLife in the next few weeks to verify that it has corrected these problems. Representatives from MetLife will also brief the Board at an upcoming meeting.

3. Thrift Savings Plan activity report by the Executive Director.

a. 2005 Board member meetings.

Mr. Amelio reviewed the Board member meeting calendar noting that the Agency would recognize the efforts of two Department of Defense employees at the April meeting, that Barclays and MetLife would make presentations at the May meeting, and that the June meeting would be in Pittsburgh. A brief discussion followed regarding the date of the June meeting, but the Board members decided not to change the scheduled date.

b. Lockbox.

Mr. Black reported that the Agency implemented the lockbox on March 7th and that more than 400 checks were processed that day. Since then, the lockbox facility has been averaging about 540 checks per day and has experienced no problems.

c. Administration.

On March 17th, the Agency released a Request for Proposals for a government-owned contractor-operated call center; the contract will include preparation of correspondence in response to participant inquiries (both functions are currently provided by the NFC). Bids are due by April 18th and the Agency hopes to have this second call center operational by the end of summer.

Mr. Stiffler reported that the back-up data center is up and running and that the former back-up center in Philadelphia has been closed. Peripheral applications should be functional by the end of March.

d. Participation rates.

Mr. Amelio explained that, for the first time in Plan history, more members of the uniformed services (approximately 478,000) were participating in the TSP than were CSRS employees (approximately 454,000). More than 40 percent of Navy personnel participate in the TSP; approximately 26 percent of Marine Corps and Air Force personnel participate in the TSP; and approximately 18 percent of Army personnel participate in the TSP. This variance among the Services is likely due to the variance in the resources and emphasis each Service devotes to

the TSP. The Agency hopes to become more active at the Service academies in order to further increase uniformed service participation rates.

e. Legislation.

Mr. Trabucco advised the Board members that Senator Collins is preparing legislation to allow Federal civilian employees to contribute from bonuses. The Board members concluded that they should not publicly endorse the proposal because it could result in a loss of revenue to the Treasury and was, therefore, a political matter for the Executive and Legislative branches to decide.

Mr. Trabucco also noted the House continues to express interest in adding a REIT fund to the TSP. The Subcommittee on the Federal Workforce and Agency Organization is planning to hold a hearing to consider this issue on April 19th. Mssrs. Amelio and Saul will likely be invited to testify at that hearing.

f. Travel accident insurance.

Ms. Smith discussed a proposal to provide travel accident insurance to the Board members. Because the normal benefit, workers' compensation (which is linked to monthly Federal salary), would be limited to approximately $230.00, a Board member had asked that the Agency look into obtaining supplemental insurance. Proposals received by the Agency showed that the Agency could provide adequate insurance for $1,886 per year. This insurance would provide a benefit of up to $1,000,000 per accident. Prior to voting on this, Chairman Saul asked Agency staff to determine whether other Federal agencies provided similar insurance to their employees.

4. Presentation by the Department of Labor and KPMG LLP.

The Department of Labor (DOL), along with its contract auditor, KPMG LLP, appeared before the Board members to present the results of DOL's FY 2004 fiduciary compliance audit and to discuss plans for the FY 2005 audit program. Present from the Department of Labor were Ian Dingwall and William Bailey. Present from KPMG LLP were Diane Dudley, Felipe Alonso, Heather Flanagan, and Greg Ruck. A copy of the DOL briefing materials is attached to these minutes.

Upon learning that the FY 2006 audit initiatives included an audit of Barclays, the Board members asked Mr. Bailey to ensure that the DOL audit included a review of Barclays' securities lending practices and asked DOL to look at this before 2006. Mr. Dingwall said that because DOL had already programmed its 2005 audit money, it could not step-up its audit of Barclays unless the Agency was aware of an actual problem. The Board members were not aware of any actual problems and remarked that they are independently examining Barclays' security lending practices. DOL will try to schedule this audit as early in fiscal year 2006 as possible. Ms. Flanagan noted that Barclays' own independent auditors have reviewed its securities lending practices and found no exceptions.

5. Lifecycle funds.

Wendy Young and Louis Finney from Mercer Investment Consulting, Inc. presented Mercer's recommendations for the TSP's lifecycle funds. Mercer proposes establishing five funds: a current income fund, a 2010 fund, a 2020 fund, a 2030 fund, and a 2040 fund. The year reflects the date the participant would be expected to begin making withdrawals (draw down date) rather than the date the participant expects to retire (because most Federal employees continue working after retiring from Federal service). The funds would be more heavily invested in equities for those participants further from their draw down dates and more heavily invested in the G Fund and F Fund for those participants closer to their expected draw down date.

6. Communications.

Ronald Campana and Randy Taylor of CitiStreet discussed their concepts for communicating lifecycle funds to the participants. Ms. Moran noted the kick-off date is June, to be followed by targeted mailings to those participants who remain in the G Fund. The communications strategy will include mail, the web, and CD-Roms/DVDs.

Ms. Moran also discussed the new fund sheets and the new tax notice.

7. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of internal procurement matters. Present during the closed portion of the

meeting were the Board members, Mr. Amelio, Ms. Moran, Mr. Petrick, Ms. Smith, and Mr. Emswiler.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 1:12 p.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Acting Secretary

NOTE: Ace-Federal Reporters, Inc. made a verbatim transcript of this meeting.