



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 19, 2008

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 19, 2008, at 9:05 a.m., Eastern Time. The meeting was held at the Board's offices at 1250 H Street, N.W., Washington, D.C. Parts of the meeting were open to the public and parts of the meeting were closed to the public. In attendance were Thomas A. Fink of Alaska, member; Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Thomas J. Trabucco, Director, External Affairs; and Renée Wilder, Director, Research and Strategic Planning.

1. Approval of the minutes of the April 21, 2008 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the April 21, 2008 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting held on April 21, 2008, be approved.

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

Prior to the formal reports, Mr. Long noted that the Agency was conducting a participant survey at [www.tsp.gov](http://www.tsp.gov). The survey focuses on what participants think of the website and what changes they might like to see implemented.

a. Monthly Participant Activity Report.

Mr. Long reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Total assets under management rose \$7 billion to \$233 billion. The increase was attributable to participant contributions and to favorable markets. The number of plan participants increased by 7,000 to

a total of 3,888,000 participants. The number of outstanding TSP loans increased slightly due to growth in the participant base and to economic conditions. The FERS participation rate increased slightly; the active duty participation rate increased slightly; but the number of Army ready reserve participants fell by nearly 4,000. This may be due to members being called to active duty or it may be that economic conditions led these members to stop their TSP contributions (members of the Ready Reserve are frequently covered by another retirement plan which makes TSP contributions easy to stop when they need additional cash). Chairman Saul stated that you need to look at the uniformed service growth since they first began participating in January 2002; participation has grown from 280,000 participants to 602,000 participants. Despite the TSP being a new program for the uniformed services and the fact that uniformed service members do not receive matching contributions, this reflects a slow, steady increase. Mr. Sanchez added that, while the Reserve Components are very important, most reservists likely do have private 401(k) plans. He added that he was pleased to see the continued growth among the active components. Mr. Long noted that the Agency is trying to increase educational efforts targeted at members of the uniformed services.

b. Investment Performance Report.

Ms. Ray reviewed the May 12, 2008 memorandum (attached), entitled "April 2008 Performance Review - G, F, C, S, I, and L Funds."

She noted that, in April, the Small to Mid-Cap fund underperformed its index by 11 basis points, primarily due to sampling. The International Fund outperformed its index by 12 basis points primarily due to taxes (the index is adjusted for taxes, but the Fund does not pay taxes).

Less than \$1 billion was transferred by participants in each fund during April. The dollar amount traded in the I Fund was over \$1 billion in each of the first four months of 2007. This year, the dollar amount traded exceeded \$1 billion only in January and was only \$512 million in April. Chairman Saul noted that these charts show how frequent interfund transfers by a small group of TSP participants was heading out of control in 2007 and hurting performance, thereby costing all TSP participants money. Ms. Ray said that the number of interfund transfers in April was 108,000--the smallest number since October 2004. She noted that the interim interfund transfer limitation took effect in April. Mr. Fink asked about the

status of the permanent rule. Ms. Ray stated that the permanent rule took effect May 1<sup>st</sup>. Under the permanent rule, a participant's first two IFTs can redistribute money among any or all of the TSP funds. After that, for the remainder of the month, a participant can only move money into the G Fund. A participant is never locked out of the G Fund. The average number of daily interfund transfers was 4,700 in April and is 3,700 to date in May. Interfund transfers in the first 10 days in May are down 50 percent compared to the first 10 days in each of the last six months.

The G Fund rate was 3.75 percent in April. April was the first month all the equity funds showed positive rates of return since October 2007. This trend has continued in May, with all equity funds up approximately 3 percent. Chairman Saul stated that these recent gains offset losses earlier in the year. He added that those participants who remained invested in the L Funds during this volatile period were probably very close to even. Mr. Long noted that we do our best to educate participants that the TSP is intended to be a long-term plan. Chairman Saul stated that it is very important that participants in the L Funds stay invested in the L Funds.

Ms. Ray turned to L Fund performance and noted that, year-to-date, all L Funds have outperformed the underlying equity funds. Since inception, all L Funds have outperformed the underlying equity funds with the exception of the I Fund. The number of participants with balances in the L Funds has grown every month. Mr. Whiting asked what percentage of participants had L Fund balances and was told around 15 percent. He added that he recalled one of our consultants had told us that 10 percent would be good. Chairman Saul noted that former Executive Director Gary Amelio had said he was hoping for 10 percent. Mr. Long said that it is clear the L Funds have been a huge success.

c. Legislative Report.

Mr. Trabucco reported that Mr. Long discussed auto-enrollment and setting the L Funds as the default investment option at a hearing on April 29<sup>th</sup>. The hearing generated excellent coverage in the press.

On Friday, the Agency received a draft discussion bill and cover letter from Representatives Waxman, Tom Davis, and Danny Davis. The discussion bill includes these two features and also contains a proposal to add a Roth feature to the TSP. The Agency is studying the merits of adding a Roth fea-

ture. This study will include examining private sector experiences with the Roth features and will also include a participant survey.

Mr. Trabucco noted that the discussion draft also includes a proposal that would allow the Board to add TSP Funds and/or a mutual fund window without further Congressional approval. A mutual fund window would allow participants access to a variety of funds; it would be beneficial where there is strong, but narrow support for a particular type of investment. Mr. Long noted that we are just beginning to consider this feature. Ms. Wilder will be examining whether there would be much demand for a mutual fund window. We will also examine it from both an investment and a systems standpoint and then make a decision. In response to a question from Chairman Saul, Mr. Long explained that there have been numerous proposals to add new funds to the TSP in the past several years (e.g., a terror-free fund, a Sudan-free fund, a real-estate fund, and a gold fund). We would still maintain the five, core TSP funds, but, with a mutual fund window, participants could pay for a service that would allow them to invest in a publicly-traded mutual fund that is targeted to their particular objectives. Mr. Long added that the first step will be to survey participants to see if there is much demand for such a feature. If there is, we will then look at next steps.

Mr. Fink stated that, with regard to the Roth feature, hadn't Agency staff already concluded that it would be very expensive to add? Mr. Long replied that it would be expensive because it would require numerous changes to the TSP and to employing agency payroll operations. Before we can make a recommendation on the Roth feature, we need to first see how well accepted it is in the private sector and what groups of TSP participants would benefit from it. In response to a question from Mr. Fink, Mr. Long explained that we do anticipate responding to the draft proposal from Congress. Our position is that we need to study the matter. Until we have done so, it would not be prudent to add a Roth feature.

Chairman Saul added that this is very important to the leadership in Congress. Right now, however, Chairman Saul's priorities are automatic enrollment and setting the L Funds as the default investment option. These changes are necessary to keep the TSP's practices in line with private-sector practices subsequent to the passing of the Pension Plan Protection Act of 2006. Automatic enrollment is vital because it forces young employees to consider the benefits of saving from

an early age. The L Fund default is critical because they have done so well when compared to the G Fund and it is important for young participants to have a diversified portfolio. We are currently modernizing the TSP's computer systems. Due to these upgrades, we could not add a Roth feature in the next 12 to 18 months. It is important that we use this period to thoroughly examine the costs and benefits associated with adding a Roth feature. Finally, Chairman Saul stated, the TSP owes a large part of its success to the system of checks and balances that have been established between the Agency and Congress. The Board only makes legislative recommendations to Congress after Agency staff has thoroughly researched the matter, concluded that it is in the interest of the participants and beneficiaries, and advice is rendered by the Employee Thrift Advisory Council. The Congress then conducts its own review to determine whether adding a new fund would benefit TSP participants. This system of the Board recommending and Congress legislating has worked well for 20 years.

In response to a question from Mr. Fink, Mr. Long explained that adding a Roth feature is of interest to both high income and low income participants. Federal judges and members of the Uniformed Services both support adding a Roth feature. In response to the Agency's survey, a large number of TSP participants supported adding a Roth feature. However, very few of these same participants contribute to a Roth IRA. We need to conduct further research to see what is behind this disparity. Mr. Trabucco noted that about 11 percent of large private-sector plans offer a Roth feature. To date, only a small percentage of the participants in these plans have elected to use the Roth feature. The low preliminary participation rate was discussed by Mr. Trabucco and a representative of the Joint Committee on Taxation which has the responsibility for estimating the revenue effect of such a change. Mr. Fink added that he believes this would be an expensive addition to the TSP that would benefit relatively few participants, and if Agency staff reach a similar conclusion, it must advise Congress of that fact. Mr. Whiting stated that he believes the number is small because the provision allowing plans to add a Roth feature was set to expire in 2010. Congress only made the provision permanent in 2006. He anticipates more and more plans will add a Roth feature. Mr. Long agreed and said that the Agency's research will focus on trends subsequent to the Roth authorization becoming permanent.

In response to a question from Mr. Sanchez, Mr. Long said that the Agency will also study the merits of adding a

mutual fund window. If it does add such a feature, the participants who use the feature will bear its associated costs.

Mr. Whiting asked whether the Pension Plan Protection Act allowed private sector plans to add features, other than a Roth, that are not available to TSP participants. He was told that the Roth feature, automatic enrollment, and the L Funds default investment option are features not available to TSP participants.

Chairman Saul asked the date of the next meeting of the Employee Thrift Advisory Council (ETAC). Mr. Trabucco replied that the Agency meets with the ETAC about every five to six months. It is about time to schedule an ETAC meeting, especially in view of the legislative proposal transmitted by Congress last Friday. ETAC members supported our proposal on automatic enrollment/L Fund default and agreed at its June 23, 2007 meeting that further study was required on the Roth proposal. Chairman Saul suggested that it might be appropriate to set a joint Board/ETAC meeting in June. Mr. Trabucco agreed to discuss this proposal with the ETAC Chairman.

Mr. Trabucco concluded the legislative report by reporting that Senator Lieberman intends to introduce a bill that would add a terrorism-free fund to the TSP. The Chief Administrative Officer of the House of Representatives wrote to the Executive Director urging him to add socially responsible funds. A Darfur-free fund, corporate responsibility fund, and a precious metals fund have already been introduced as legislative proposals in Congress. So there continues to be support for such targeted investments.

#### 4. Mid-Year Budget Review.

Mr. Long reviewed his May 12, 2008 memorandum entitled "Fiscal Year 2008 Mid-Year Budget Review" (attached). He reported that the Board approved a budget of \$108.4 million in September. He anticipates that, overall, the Agency will be approximately \$3.5 million under budget principally because we do not anticipate going forward with all planned communications projects this year. The TSP systems modernization project will likely exceed its budget. We will be under budget for personnel because hiring occurs throughout the year while new positions in the budget score as a full year of salary.

Mr. Petrick added that the mid-year budget allows us to assess where we are and to advise the Board if any adjust-

ments are necessary. Chairman Saul noted that operating expenses for the Agency continue to come in under budget. This Agency continues to be run very efficiently. We budgeted \$20 million for TSP system modernization, a significant amount of the Agency's total budget, but it appears the budgeted amount is insufficient. Mr. Hagerty explained that we have done a site-by-site engineering review of all requirements and have verified and validated our original assumptions. Our telecommunications requirements grew more than anticipated due to bandwidth requirements which are necessary to manage growth and to ensure that we have path and carrier diversity. We also needed greater data storage to handle growth and to facilitate end-to-end testing. Costs associated with software sustainability also increased. In total, we needed approximately \$4 million more than originally budgeted for TSP systems. Chairman Saul asked for and was promised an update on the TSP system modernization project at the September Board meeting. He remarked that the project was expected to be complete by the middle of 2009, and Mr. Hagerty agreed that the major investments will have been made by then.

3. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:05 a.m. for a discussion of procurement and personnel matters.

At 10:38 p.m., upon completion of the executive session, the members reconvened the open portion of meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Fink adjourned the meeting at 10:38 a.m.

MOTION: That this meeting be adjourned.

  
Thomas K. Emswiler  
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. April 2008 Performance Review - G, F, C, S, I, and L Funds
3. Fiscal Year 2008 Mid-Year Budget Review