



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

GREGORY T. LONG
Executive Director

September 7, 2007

MEMORANDUM FOR BOARD MEMBERS SAUL, FINK, WHITING,
SANCHEZ, AND DUFFY

FROM: GREG LONG
EXECUTIVE DIRECTOR

A handwritten signature in dark ink, appearing to be "G. Long", written over the printed name "GREG LONG".

SUBJECT: Fiscal Year 2007 Budgeted and Projected Expendi-
tures, Fiscal Year 2008 Budget, and Fiscal Year
2009 Budget Estimate

Background

Section 8472(i) of the Federal Employees' Retirement System Act of 1986 states:

The Board shall prepare and submit to the President, and, at the same time, to the appropriate committees of Congress, an annual budget of the expenses and other items relating to the Board which shall be included as a separate item in the budget required to be transmitted to the Congress [annually by the President].

The Office of Management and Budget (OMB) is now starting its work on the Fiscal Year 2009 Budget of the U.S. Government, which will be transmitted by the President to the Congress in February 2008.

Attached are the Agency's proposed administrative budget for fiscal year 2008 and a first estimate for fiscal year 2009. Projected final expenditures for fiscal year 2007 are also presented in the tables. The figures are provided by the Federal Government's prescribed budgeting "object classes", by Agency office, and by function, which provides three different "looks" at the budget. Comments regarding the budget items are most easily referenced by reviewing the budget report by function. Salient elements of the 2007 projected expenditures, 2008 budgeted expenditures, and 2009 estimated expenditures are summarized below.

Following your approval, the Agency's 2008 budget (together with the 2009 estimate) will be provided to the Congress and to OMB for inclusion in the President's budget.

Fiscal Year 2007 Status

The current projection for normal operations during the fiscal year ending September 30, 2007, indicates total obligations would be \$83.9 million, or \$3.7 million (4%) under the \$87.6 million approved budget. The principal variances from the budget are:

- a) Record keeping costs of \$67.7 million are projected at \$4.7 million above budget, principally due to the proposed September 2007 expenses associated with replacing the main-frame hardware in the primary and recovery data centers, located in Reston, VA and Pittsburgh, PA.
- b) Participant communications costs of \$2.6 million are projected below budget by \$5.6 million, primarily because we refocused our available resources on the web password and account number projects in lieu of the DVD for new participants, the web redesign project, and targeted mailing efforts. We also reduced our printed communication materials such as brochures, posters, *Highlights*, and leaflets with an associated reduction in the distribution, fulfillment, and postage costs through a continued emphasis on web availability. Production of the *TSP Summary* booklet was also postponed given the significant number of changes that will and may soon take effect (e.g., account numbers, annual statements, auto-enrollment).
- c) Agency personnel costs of \$8.0 million are projected below budget by \$0.9 million. Fiscal year-end staffing is projected to be less than budgeted at the beginning of the year.
- d) Other operating expenses of \$5.6 million are projected at \$1.9 million below budget.

Fiscal Year 2008 Budget

The proposed budget for FY 2008 is substantially higher than the budget for FY 2007. This reflects the plans presented to the Board today in the TSP Systems Modernization Plan and in previous discussions with the Board regarding our goals for the coming year. We are preparing to launch significant initiatives that

will improve the services that we provide to TSP participants, protect the security of these participants' accounts and ensure our ability to provide critical services in all situations.

Passage of the proposed budget will allow us to complete these initiatives.

The proposed budget of \$108.4 million for FY 2008 is an increase of \$20.8 million (24%) from the FY 2007 budget of \$87.6 million. The principal components of the FY 2008 budget are:

- Record keeping activities: \$81.7 million (\$18.7 million above the FY 2007 budget), consisting of the following:

\$27.5 million for TSP system support and TSP system software (an increase of \$4.2 million from the FY 2007 budget), due primarily to new software configuration management processes and systems, and additional support from our contractor;

\$29.0 million for all operations of the call, data, and recovery centers (an increase of \$10.4 million from the FY 2007 budget), due primarily to proposed hardware and software upgrades as described in the TSP Systems Modernization memorandum. In addition, 2007 call volumes, and loan, and withdrawal activity are up relative to 2006 levels and we expect this trend to continue. The increasing number of Federal employees who are reaching retirement age is a driver of this activity. We anticipate further increases in call volumes and beneficiary designation changes as we switch to account number identifiers and mail the first annual participant statement in February 2008;

\$25.3 million for other recordkeeping activities such as mail handling, data entry, benefits processing, and system accounting (an increase of \$4.1 million from the FY 2007 budget). The increase is due primarily to printing and postage costs associated with the new annual participant statement, creation of a specialized team to handle complex beneficiary change issues, increased volume of forms received and notices sent, the transition to OCR (Optical Character Recognition) form review capabilities, and implementation of the new effort to track returned mail and locate "lost" participants.

- Participant communications: \$7.0 million (\$1.2 million less than the FY 2007 budget), consisting of the following:

\$3.5 million for printing of brochures, forms, and production of other communications materials (e.g., DVDs and the target communications for special populations), including updates and revisions that will be required as a result of the password and account number projects, the annual participant statements, the OCR forms project, and recent changes in pension law (an increase of \$0.3 million from the FY 2007 budget). The *TSP Summary* (which is our most expensive booklet) will be updated in 2008 as soon as the extent of the changes is known. Additionally, we anticipate a reduction in printed pieces to beneficially affect expenses;

\$0.3 million for distribution and fulfillment costs (a decrease of \$1.0 million from the FY 2007 budget). This reduction is driven by the continuing reduction in demand for printed participant communication materials, including brochures, forms, and leaflets by the agencies and services. We are encouraging the use of the web site as the source for many of our publications, particularly the forms, because they will always be the latest version and use of the web provides cost savings to both the TSP and the agencies/services. Additionally, some warehousing costs associated with this budget item have been distributed to other budget items;

\$3.3 million for postage (a decrease of \$0.5 million from the FY 2007 budget) which reflects the more targeted nature of the special mailings.

- Agency staff: \$10.7 million (\$1.8 million above the FY 2007 budget)

The FY 2008 budget provides for the salaries and benefits of 80 full-time positions and 9 part-time positions, including the 5 part-time Board members. The increase from FY 2007 expenditures reflects additional authorized staffing resources for FY 2008 at a cost of \$1.0 million and the projected increase in annual salary and benefit costs due to the standard government-wide pay raises.

- Other Agency operations: \$9.0 million (\$1.5 million above the FY 2007 budget), consisting of the following:

\$2.5 million for office rent (an increase of \$0.2 million from the FY 2007 budget);

\$1.5 million for Agency information technology costs (an increase of \$0.3 million from the FY 2007 budget);

\$5.0 million for all other operating expenses, including the web redesign project, participant survey, travel (including contractor on-site reviews), increased employee training, miscellaneous contractual expenses, supplies, and office equipment (an increase of \$1.0 million from the FY 2007 budget).

Fiscal Year 2009 Budget Estimate

The initial estimate for FY 2009 obligations is \$107.1 million, or \$1.3 million below the FY 2008 budget. The major programs and the changes from the FY 2008 operating plan reflected in this estimate are:

- Record keeping activities: \$80.2 million (\$1.5 million below the FY 2008 budget)

The decrease is due principally to the completion of the majority of the proposed TSP Systems Modernization project activities by the end of FY 2008. However, we note that hardware and software maintenance fees will increase in FY 2009 over FY 2008 because such services are normally provided for one year as part of the initial purchase price.

- Participant communications: \$6.6 million (\$0.4 million below the FY 2008 budget)

Participant communications costs in FY 2009 are expected to be comparable to FY 2008, with a slight reduction as the web redesign effort should be well underway and we do not anticipate major changes to all of the forms and publications as are expected in FY 2008.

- Agency staff: \$11.3 million (\$0.6 million above the FY 2008 budget)

FY 2009 costs for salaries and benefits are estimated to increase slightly due to the standard government-wide pay raises.

- Other operating expenses: \$9.1 million (\$0.1 million above the FY 2008 budget)

The slight increase in the FY 2009 estimate is principally due to the contracted increase in office rent.

Recommendation

I recommend that the Agency's proposed Fiscal Year 2008 budget be approved as attached. I will then forward it, together with the Fiscal Year 2009 estimate as attached, to the Congress and to OMB for inclusion with the Fiscal Year 2009 Budget of the United States Government.

Attachments

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD BUDGET

	FY 2007			FY2008		FY 2009	
	Budget	Projected Obligations	vs. budget	Budget	vs. FY2007 Budget	Budget Estimate	vs. FY2008 Budget
Selected summaries of Interest:							
Record Keeping							
TSP system contractor support	22,425,000	23,136,746	711,746	26,335,000	3,910,000	28,700,000	2,365,000
TSP system software	833,000	768,365	(64,635)	1,115,000	282,000	1,178,000	63,000
Subtotal TSP System	23,258,000	23,905,111	647,111	27,450,000	4,192,000	29,878,000	2,428,000
Reston Data Center contractor support	2,013,000	2,011,712	(1,288)	2,310,000	297,000	2,330,000	20,000
Reston Data Center hardware & software	4,458,000	7,262,634	2,804,634	11,523,000	7,065,000	7,677,000	(3,846,000)
Pittsburgh Disaster Recovery Site contractor support	865,000	799,362	(65,638)	890,000	25,000	905,000	15,000
Pittsburgh Disaster Recovery Site hardware & software	1,782,000	4,235,335	2,453,335	3,483,000	1,701,000	1,331,000	(2,152,000)
Clintwood Call Center contractor support	4,124,500	3,758,000	(366,500)	4,965,000	840,500	5,138,000	173,000
Clintwood Call Center hardware, software, and lease direct charges	744,000	962,377	218,377	695,000	(49,000)	735,000	40,000
Cumberland Call Center	4,400,000	4,116,000	(284,000)	5,000,000	600,000	5,250,000	250,000
Call center consultant	125,000	111,715	(13,285)	85,000	(40,000)	155,000	70,000
Subtotal Data, Recovery, and Call Centers	18,511,500	23,257,135	4,745,635	28,951,000	10,439,500	23,521,000	(5,430,000)
Operations (Mail, Data Entry, Printing, etc)	13,281,500	11,396,730	(1,884,770)	15,593,000	2,311,500	16,231,000	638,000
System accounting	2,500,000	1,825,000	(675,000)	2,500,000	0	2,700,000	200,000
Communications lines for data and call centers	2,795,000	2,485,440	(309,560)	2,360,000	(435,000)	2,570,000	210,000
Postage (TSP System Mailings) - Notices	2,637,000	4,796,000	2,159,000	4,827,000	2,190,000	5,269,000	442,000
Subtotal Operations, Accounting, Communications, & Postage	21,213,500	20,503,170	(710,330)	25,280,000	4,066,500	26,770,000	1,490,000
Total recordkeeping costs	62,983,000	67,665,416	4,682,416	81,681,000	18,698,000	80,169,000	(1,512,000)
Communications							
Brochures Printing	912,000	156,532	(755,468)	997,000	85,000	1,012,000	15,000
Other Printing (Posters, Highlights, DVDs, Leaflets)	1,438,500	329,485	(1,109,015)	1,541,000	102,500	1,428,000	(113,000)
Other Communications Materials	790,000	118,789	(671,211)	914,000	124,000	738,500	(175,500)
Subtotal Print Materials	3,140,500	604,807	(2,535,693)	3,452,000	311,500	3,178,500	(273,500)
Distribution and Fulfillment	1,322,500	426,608	(895,893)	320,000	(1,002,500)	330,000	10,000
Postage	3,762,000	1,575,000	(2,187,000)	3,268,000	(494,000)	3,085,000	(183,000)
Total communications	8,225,000	2,606,414	(5,618,586)	7,040,000	(1,185,000)	6,593,500	(446,500)
Personnel salaries and benefits	8,905,000	8,034,935	(870,065)	10,734,000	1,829,000	11,328,000	594,000
Other agency operations							
Office rent	2,310,000	2,327,523	17,523	2,520,000	210,000	2,680,000	160,000
IT hardware/software here in the agency	1,200,000	784,975	(415,025)	1,451,000	251,000	1,441,000	(10,000)
Everything else	4,004,000	2,478,672	(1,525,328)	4,991,000	987,000	4,933,500	(57,500)
Total agency operations	7,514,000	5,591,170	(1,922,830)	8,962,000	1,448,000	9,054,500	92,500
Total budget	87,627,000	83,897,935	(3,729,065)	108,417,000	20,790,000	107,145,000	(1,272,000)

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD BUDGET

	FY 2007			FY2008		FY 2009	
	Budget	Projected Obligations	vs. budget	Budget	vs. FY2007 Budget	Budget Estimate	vs. FY2008 Budget
SUMMARY - OFFICE TOTALS							
EXECUTIVE DIRECTOR	647,000	489,682	(157,318)	915,000	268,000	942,000	27,000
AUTOMATED SYSTEMS							
Agency Operations	4,168,000	3,406,978	(761,022)	5,469,000	1,301,000	5,442,000	(27,000)
External Vendors - Recordkeeping Services	35,880,000	41,655,971	5,775,971	48,701,000	12,821,000	45,416,000	(3,285,000)
TOTAL	40,048,000	45,062,949	5,014,949	54,170,000	14,122,000	50,858,000	(3,312,000)
EXTERNAL AFFAIRS	354,000	319,462	(34,538)	362,000	8,000	391,000	29,000
FINANCE							
Agency Operations	2,987,000	2,537,556	(449,444)	3,297,000	310,000	3,877,000	580,000
Facilities	2,531,000	2,417,612	(113,388)	2,783,000	252,000	2,927,000	144,000
External Vendors - Recordkeeping Services	2,500,000	1,825,000	(675,000)	2,500,000	0	2,700,000	200,000
External Vendors - Administrative Support	640,000	466,004	(173,996)	740,000	100,000	815,000	75,000
TOTAL	8,658,000	7,246,172	(1,411,828)	9,320,000	662,000	10,319,000	999,000
GENERAL COUNSEL	954,000	719,918	(234,082)	1,076,000	122,000	1,127,000	51,000
INVESTMENTS	673,000	449,840	(223,160)	717,000	44,000	760,000	43,000
PARTICIPANT SERVICES							
Agency Operations	3,002,000	2,489,435	(512,565)	3,553,000	551,000	3,565,500	12,500
Communications Materials	8,225,000	2,606,414	(5,618,586)	7,040,000	(1,185,000)	6,593,500	(446,500)
External Vendors - Record Keeping Services	24,603,000	24,184,445	(418,555)	30,480,000	5,877,000	32,053,000	1,573,000
TOTAL	35,830,000	29,280,294	(6,549,706)	41,073,000	5,243,000	42,212,000	1,139,000
PRODUCT DEVELOPMENT	463,000	329,617	(133,383)	784,000	321,000	536,000	(248,000)
GRAND TOTAL	87,627,000	83,897,935	(3,729,065)	108,417,000	20,790,000	107,145,000	(1,272,000)
Fiduciary Insurance	500,000	248,900	(251,100)	550,000	50,000	550,000	0
SUMMARY - BY EXPENDITURE TYPE							
Agency Operations	13,248,000	10,742,488	(2,505,512)	16,173,000	2,925,000	16,640,500	467,500
External Program Vendors	62,983,000	67,665,416	4,682,416	81,681,000	18,698,000	80,169,000	(1,512,000)
Communications Materials	8,225,000	2,606,414	(5,618,586)	7,040,000	(1,185,000)	6,593,500	(446,500)
External Administrative Vendors	640,000	466,004	(173,996)	740,000	100,000	815,000	75,000
Facilities	2,531,000	2,417,612	(113,388)	2,783,000	252,000	2,927,000	144,000
GRAND TOTAL	87,627,000	83,897,935	(3,729,065)	108,417,000	20,790,000	107,145,000	(1,272,000)

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD BUDGET

	FY 2007			FY2008		FY 2009	
	Budget	Projected Obligations	vs. budget	Budget	vs. FY2007 Budget	Budget Estimate	vs. FY2008 Budget
SUMMARY - OBJECT CLASS TOTALS							
11.0 PERSONNEL COMPENSATION							
11.1 Full-Time Permanent Salaries	6,917,000	6,450,528	(466,472)	8,414,000	1,497,000	8,869,000	455,000
11.3 Part-Time Permanent Salaries	182,000	88,235	(93,765)	184,000	2,000	186,000	2,000
11.5 Other Compensation [i.e., Overtime]	9,000	3,288	(5,712)	10,000	1,000	10,000	0
Subtotal Permanent Compensation	7,108,000	6,542,050	(565,950)	8,608,000	1,500,000	9,065,000	457,000
11.3 Temporary Salaries	36,000	834	(35,166)	43,000	7,000	45,000	2,000
Total 11.0 Personnel Compensation	7,144,000	6,542,885	(601,115)	8,651,000	1,507,000	9,110,000	459,000
12.0 PERSONNEL BENEFITS	1,761,000	1,492,050	(268,950)	2,083,000	322,000	2,218,000	135,000
21.0 TRAVEL AND TRANSPORTATION OF PERSONS	349,000	225,434	(123,566)	379,000	30,000	391,000	12,000
22.0 TRANSPORTATION OF THINGS	0	26,000	26,000	80,000	80,000	50,000	(30,000)
23.0 RENT, COMMUNICATIONS, AND UTILITIES							
23.1 Rental Payments to Others [e.g., Office Space Rental]	2,842,000	2,854,939	12,939	3,000,000	158,000	3,185,000	185,000
23.3 Communications, Utilities, and Misc. Charges	9,628,000	9,215,460	(412,540)	10,961,000	1,333,000	11,453,000	492,000
Total 23.0, Rent, Communications, and Utilities	12,470,000	12,070,399	(399,601)	13,961,000	1,491,000	14,638,000	677,000
24.0 PRINTING & REPRODUCTION							
Printing of Participant Communications Materials	2,525,500	604,807	(1,920,693)	2,837,000	311,500	2,763,500	(73,500)
Warehouse and Distribute. of Partic. Communications Materials	1,322,500	426,608	(895,893)	320,000	(1,002,500)	330,000	10,000
Other Printing	18,000	6,037	(11,963)	13,000	(5,000)	13,000	0
Total 24.0 Printing and Reproduction	3,866,000	1,037,451	(2,828,549)	3,170,000	(696,000)	3,106,500	(63,500)
25.0 OTHER CONTRACTUAL SERVICES							
25.1 Advisory and Assistance Services [i.e., Consultants]	445,000	167,747	(277,253)	759,000	314,000	640,000	(119,000)
25.2 Other Commercial Services							
Training	132,000	94,872	(37,128)	222,000	90,000	222,000	0
Commercial Contracts and Other Expenses	53,696,000	49,884,198	(3,811,802)	61,684,000	7,988,000	65,185,000	3,501,000
Subtotal 25.2 Other Commercial Services	53,828,000	49,979,070	(3,848,930)	61,906,000	8,078,000	65,407,000	3,501,000
Services From Other Government Agencies	770,000	466,004	(303,996)	870,000	100,000	953,000	83,000
Subtotal, 25.3 Purchases From Government Accounts	770,000	466,004	(303,996)	870,000	100,000	953,000	83,000
Total, 25.0 Other Contractual Services	55,043,000	50,612,821	(4,430,179)	63,535,000	8,492,000	67,000,000	3,465,000
26.0 SUPPLIES AND MATERIALS							
Office and ADP Supplies	127,000	71,476	(55,524)	126,000	(1,000)	131,000	5,000
Subscriptions and Publications	104,000	98,301	(5,699)	134,000	30,000	143,500	9,500
Total, 26.0 Supplies and Materials	231,000	169,778	(61,223)	260,000	29,000	274,500	14,500
31.0 EQUIPMENT							
ADP Software	4,946,000	4,652,522	(293,478)	8,933,000	3,987,000	7,837,000	(1,096,000)
ADP Hardware	1,774,000	7,063,340	5,289,340	7,293,000	5,519,000	2,451,000	(4,842,000)
Office Equipment	13,000	3,875	(9,125)	22,000	9,000	19,000	(3,000)
Office Furniture	30,000	1,381	(28,620)	50,000	20,000	50,000	0
Total, 31.0 Equipment	6,763,000	11,721,118	4,958,118	16,298,000	9,535,000	10,357,000	(5,941,000)
GRAND TOTAL	87,627,000	83,897,935	(3,729,065)	108,417,000	20,790,000	107,145,000	(1,272,000)
Fiduciary insurance	500,000	248,900	(251,100)	550,000	50,000	550,000	0