



MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 18, 2009

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 18, 2009, at 9:04 a.m., Eastern 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 M. Sanchez of Florida, member; Gordon J. Whiting of New York, 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 20, 2009 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the April 20, 2009 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 20, 2009, be approved.

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

Mr. Long noted that Ms. Moran and Ms. Wilder would be reviewing the status of the website redesign project. In addition to these two individuals, he thanked Sophie Dmuchowski, Donald Ferracci, Roy Friend, Susan Smith, Alvin Thornton, and Veronica Mance for their work on the project.

a. Participant Activity Report

Ms. Wilder then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). The balance in the Thrift Savings Fund was back over \$200 billion and now stands at approximately \$206 billion. The increase was due to good investment performance and a boost in contribution levels. The participation rate has been steadily inching back up. Participants continued to transfer their investments to the G Fund, but they have not left the plan or stopped participating in significant numbers. The participation rate for active duty uniformed service members has essentially held steady at 37.2 percent and at 28.2 percent for active duty and reserve component members combined.

Chairman Saul asked why the administrative expense ratio was only 1 basis point. He was told that it did not reflect a full year's expenses and that it was net of forfeitures. He asked what constituted forfeitures and was told that agency automatic (1%) contributions are subject to a vesting schedule and that employees who are put in the wrong retirement system forfeit agency contributions when they are put in a system that is not eligible to receive agency contributions. Chairman Saul added that even the gross expense ratio of 1 ¾ basis points was small compared to other plans. Mr. Petrick noted that expenses accumulate over the course of the entire calendar year and that we expect the gross expense ratio to be three basis points at the end of the year.

b. Investment Performance Report

Ms. Ray reviewed the May 8, 2009 memorandum (attached), entitled "April 2009 Performance Review - G, F, C, S, I, and L Funds." March and April were both good months. All the funds, with the exception of the I Fund, closely tracked the indexes. The I Fund had a 70 basis point fair value adjustment at the end of April. The I Fund's tracking error will remain large all year due to a December 31, 2008 fair value adjustment. The small to mid-cap fund closely tracked its index in April but, year-to-date, tracking error remains because of the fund's optimization technique.

The G Fund rate had a nice tick-up due to an increase in long-term rates. The I Fund was up 12 percent in April, the S Fund was up 15 percent, and the C Fund was up 9.5 percent. Both the I Fund and C Fund are up thus far in May. Overall, the market is up 31 percent since its lows. The L Funds showed positive returns in April and, year-to-date, the worst performer, the 2040 Fund, is minus 1.07 percent.

Participants still have over 50 percent of their money allocated to the G Fund, but are beginning to reallocate to the equity funds. Mr. Long stated that, even though we have had two good months, it does not mean that the rough ride is over.

Mr. Fink asked about the press reports on Barclays Global Investors (BGI). Mr. Long explained that BGI was selling its I Shares business. As part of the sale, it had a provision that allowed it to continue to market the I Shares business to other vendors. As a consequence, BGI is in talks to sell the entire business. Mr. Fink asked, if BGI is sold, would we automatically solicit a new investment manager. Mr. Petrick explained that we would not. The TSP's fund manager has been sold twice previously and both resulted in a seamless transition. Chairman Saul stated that we have flexibility because the BGI contract expires in the fall and we can terminate the contract if that should prove necessary. In any event, a change could prove beneficial. He said that Mr. Long and Agency staff must follow this matter closely and protect the participants' investments. Mr. Long remarked that we do have an emergency asset transfer plan as a contingency and that he would keep the Board members advised of any significant developments regarding the potential sale of BGI. Mr. Fink added that

he did not see a sale of BGI as presenting significant risks to the TSP. It would be worthwhile to discuss soliciting bids for the contract if BGI is sold.

c. Legislative Report

Mr. Trabucco noted that the Board members had directed him to seek legislation pertaining to spousal accounts, administrative subpoenas, Roth accounts, and to clarify whether Congress intended the Mandatory Victims' Restitution Act to apply to the TSP. He added that, while the Board had decided not to seek legislation that would add a mutual fund window to the TSP, both the Congress and the Administration had expressed interest in such a feature. We do have concerns about the language in the current mutual fund window proposal. A member of the Employee Thrift Advisory Council (ETAC) stated that the language was utterly impractical because, unlike the approach followed by other 401(k) plans, it would require the Agency to select the investment funds rather than the fund provider. We have discussed an amendment with our oversight committees and they have agreed to our amended language. With this amendment, none of the ETAC members would oppose adding a mutual fund window to the plan, but all wanted the Agency to publish a regulation limiting investment in the mutual fund window to between 20 and 25 percent of a participant's account. Chairman Saul asked whether the legislation would grant the Board such authority and was told that it would. He then asked what the next steps would be in the legislative process. Mr. Trabucco explained that he expected the TSP legislation to be attached to a bill that would give the Food and Drug Administration the authority to regulate tobacco products. The consolidated bill should pass sometime between Memorial Day and the Fourth of July. Mr. Fink asked for ETAC's position on the mutual fund window proposal. Mr. Trabucco said that it was mixed. Some members thought it was a good idea and some were more cautious, because it adds complexity to the plan. The consensus was that the ETAC members would not oppose the legislation because of it, but they all felt strongly there should be a contribution limit. Chairman Saul noted that the Board and the ETAC members were in complete agreement on the proposed TSP legislation.

Mr. Sanchez asked whether any thought had been given to eventually raising the mutual fund window contribution limit. Mr. Trabucco said that it had been discussed. He had assured the ETAC that the Agency would seek its opinion before adjusting the rate and that the ETAC was comfortable with this approach. Chairman Saul asked whether the mutual fund proposal had a required implementation date. Mr. Long said it did not. The legislation would give the Agency the authority to add a mutual fund window but it would not mandate adding a mutual fund window. Chairman Saul stated that we should implement in consultation with ETAC. He was assured that Agency staff would do so and, Mr. Trabucco added, we always give the ETAC an opportunity to comment on our regulations before we formally propose them.

Mr. Long concluded the legislative report by stating that adding these new features to the TSP would require the Agency to add staff and that the Board

could expect such a proposal if the legislation is enacted. Chairman Saul indicated his support of this.

3. Web Re-design Project.

Mr. Long stated that modernizing the TSP's website had been one of his goals since he was first selected as Executive Director. He referred to a May 8, 2009 memorandum entitled "Redesign Effort for the Thrift Savings Plan Web Site" (attached) and pointed out that the website is the principal method used by the Agency to communicate with TSP participants. Last year, we averaged 5,000,000 home page visits per month. The vast majority of our interfund transfers and contribution allocations are done via the web. Ms. Moran led phase one of the project, "Research and Ideas," and Ms. Wilder will lead phase II, "Implementation."

Ms. Moran explained that putting up a new website was a huge undertaking that involved every office in the Agency. She thanked Roy Friend and Susan Smith for their work on the infrastructure.

The current TSP homepage was created in 1997 and has not been significantly revised since then. The new website will have a more contemporary look and feel. You will also be able to log-in from the home page. It will include new sections such as "Life Events" that will enable participants to quickly find information, for example, on military deployment, being a new hire, and the affect of divorce on the TSP rather than having to search for it. It will include quick links to the most popular pages, such as participant statements.

Ms. Wilder said that the new site will reduce the number of clicks required to access information. It will recognize that participants retrieve information in different ways and provide options. It will allow participants to change the size of the text and may include podcast messages from the Executive Director. Mr. Long added that it will take existing information and organize it in a more logical fashion. Enhanced security will be an important feature of the site. Once a participant logs in, the site will identify the participant by name and inform him/her of any pending transactions.

Ms. Moran and Ms. Wilder then reviewed a number of screen shots comparing and contrasting the current website with the redesigned website. Ms. Moran emphasized that, as they have made their revisions, their goal has been to look at the language, consolidate it, and make it clearer. Mr. Long noted that the Agency had used focus groups to identify features participants expected to see and what they expected the features to be called. The site will have a whole new look and feel.

Mr. Whiting asked whether the redesign envisioned adding new features such as Roth accounts or a mutual fund window. Ms. Moran explained that whole design is modular. This will enable Agency staff to build new modules and add them to the website. Mr. Sanchez said that the new site will have a "wow" factor. Everything Ms. Moran and Ms. Wilder had demonstrated shows an amazingly good transformation

from 1997 to 2009. Ms. Wilder added that they had changed color schemes to give an easier on the eye feel. The color scheme will also direct participants to important information.

Ms. Moran explained that the new site will use question and answer formats (wizards) to help participants complete forms rather than just fill in forms as is currently done. This will enable us to pre-edit forms and lead to fewer mistakes and greater participant satisfaction.

We plan on launching a test site in September and, based on feedback, fielding the new website in early 2010. Mr. Sanchez asked how many individuals will participate in the testing of the "beta" site. Mr. Long replied about 5,000, a statistically significant sample. Chairman Saul asked whether the website will receive legal review. Ms. Wilder said that it would--legal review and 508 compliance (ensuring that individual with visual handicaps can use the site) will all factor in to when the new site is fielded.

Ms. Moran noted that the new site will better enable participants to manage their profiles. Participants will be able to customize their password, block account access for certain transactions, and, in the case of separated participants, change their address in one location on the website. Chairman Saul commented the new site will enable participants to see their year-to-date returns and their returns over the last twelve months. He remarked that he had asked for this and that it is an important feature because many participants need it for tax purposes. He said that this should be available throughout the website and was assured that it would be. Ms. Wilder remarked that all investment return sections on the website will be in a friendlier and easier to read format.

Mr. Long stated that we've examined the market place to see how information is displayed. Ms. Moran noted that the existing site contains a lot of investment information. The new site will repackage and supplement that information. Additionally, many current pages provide information only in bulletins and booklets. The new site will also provide more information by topic with links to related topics and better enable participants to get the whole picture. Ms. Wilder summarized that the key to our initial rollout was to have the same functionality that is available on the existing site. In fact, we will be adding features. But it is important to note that this will be a living, breathing website. As we move to phase III, we will have more interactivity and wizards. We will add more calculators and may also provide information in DVD format and through podcasts. Ms. Moran added that we may do on-line training for the individuals in the employing agencies who assist participants with TSP transactions. This training could even lead to the award of a certificate.

Chairman Saul asked whether we will just turn off the old site and turn on the new site and was told that is exactly what we will do. As we go through beta testing, we will advise participants of the expected rollout date. Chairman Saul commented on the average of 5,000,000 home page visits per month and asked whether 10 percent of the participants might account for 90 percent of these visits. Ms. Moran said she did not

think so. She had given a similar presentation to employing agency TSP representatives recently and all seemed excited. She reiterated that the vast majority of our interfund transfers and contribution allocations are done via the website. Mr. Long added that it is true that some participants do not use the website, but a large percentage of TSP participants use the website regularly. He thanked Ms. Moran and Ms. Wilder and said that he is very excited about the new website. He concluded by stating that we will always be working to make it an even better website.

4. Mid-year Budget Review.

Mr. Petrick reviewed the May 8, 2009 memorandum (attached), entitled "Fiscal Year 2009 Mid-Year Budget Review." He stated that his presentation would not be as exciting as the website redesign presentation, but Chairman Saul said it would be, because it would show that the Agency was operating under budget. Mr. Petrick stated that the Agency had budgeted \$114.5 million for fiscal year 2009 and expected to expend \$112.2 million. Record keeping is the single biggest budget item and we expect to be over budget by \$400,000 which is very close to the budgeted amount of \$85.8 million. Mr. Long stated that he would view that as a bull's-eye. Expenditures for participant communications are in-line with the amount budgeted. We expect to be under budget by \$2.3 million for Agency staff because we either filled positions after the fiscal year started or still have vacancies in positions that were budgeted for. We expect that expenditures for other Agency operations will be at, or slightly below, the amount budgeted. The bottom line is that our projected expenditures are essentially on-track with the amount budgeted.

Chairman Saul asked whether the \$112.3 million projected outlay included systems modernization and was told that it did. He then said that the systems modernization project was a three-year project and asked whether it would be completed in 2010. He was told that it would and that most of the expenditures on systems modernization would be made by September 30th. Chairman Saul then asked whether the chart on page 6 of the memorandum showing expenditures for hardware, software, and other items were one-time expenses or were on-going expenses. He was told that they were one-time expenses. He then asked how much of these expenditures were in 2008 and how much were in 2009 and was told approximately 50 percent each year. He added that these fixed expenditures mean that the cost of running the Agency in fiscal year 2009 is actually \$5 to \$6 million less than the amount projected to be spent. Mr. Whiting asked how often the Agency would need to upgrade its systems. Mr. Hagerty stated every three to five years, but the upgrades will not need to be of the magnitude expended on the systems modernization effort. Mr. Whiting stated that while these outlays are technically non-recurring, they were, in essence, recurring expenditures because of the need to upgrade. Mr. Long stated that we don't expect outlays for the systems to go down drastically because we will need greater capacity and upgrading security will be a continuing requirement. Chairman Saul asked whether adding a Roth feature to the TSP would require additional expenditures. Mr. Hagerty stated that it would increase expenditures for software and programming but it remains to be seen whether additional capacity or throughput will be required. Mr. Long stated

that adding a Roth feature would increase the need for personnel. Chairman Saul said that the Agency's fiscal year 2010 budget must ensure that, other than these one-time expenditures, our expenditures for operating costs are wisely made. Prior to this Board commencing service, Agency operating budgets were higher and the Board trimmed a lot of dead wood. We must spend every nickel of participant money wisely. Mr. Long said that he recommends expenditures based on the best interests of the participants and beneficiaries. If he concludes it make sense, for example, to expend \$17 million on system modernization, he will recommend it to the Board. In the private sector you must compare your expenditures to last year's expenditures. Here, our guiding principle must be whether the expenditure is prudent.

Chairman Saul asked why the Agency had been required to spend approximately \$1.8 million more than budgeted for storage costs. Mr. Hagerty explained that we had not budgeted for a full-size test data base. When we added that requirement, it required us to increase capacity. Mr. Long acknowledged that he understood Chairman Saul's message--we must make sure we spend participant money prudently and not continually increase the budget. He concluded by saying we have made decisions to decrease spending, but, where necessary, we have increased it.

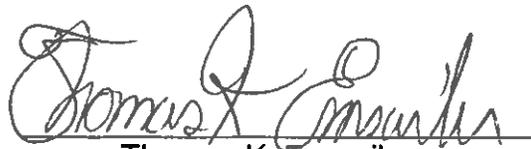
5. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting at 10:45 a.m. for a discussion of personnel.

At 11:05 a.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 Saul adjourned the meeting at 11:05 a.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. April 2009 Performance Review – G, F, C, S, I, and L Funds
3. Redesign efforts for the Thrift Savings Plan Website
4. Fiscal Year 2009 Mid-Year Budget Review