



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

April 19, 2010

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on April 19, 2010, at 9:09 a.m., Eastern Time. Parts of the meeting were 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 March 15, 2010 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the March 15, 2010 Board member meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board member meeting that was held on March 15, 2010, be approved.

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

- a. Financial Literacy Month

Mr. Long reminded the Board that April is Financial Literacy Month and briefly mentioned some of the ways in which the Agency encourages people to think about the TSP when they think about financial literacy. For example, each year the Agency creates a poster for Financial Literacy Month (attached) and posts a letter from Mr. Long on the TSP web site. April is also the month that the American Savings and Education Council (ASEC), a coalition of public and private institutions committed to making savings and retirement planning a priority for Americans, meets to discuss ways to better share data, educational messages, and ideas on how to help Americans save more. The Agency is pleased to partner with ASEC.

- b. Participant Activity Report

Ms. Wilder reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder informed the Board members that the total fund balance exceeded a quarter of a trillion dollars in March.

Chairman Saul pointed out that \$250 billion is a significant increase from \$98.5 billion, which was the fund balance when the current Board members began their terms. With a fund balance of a quarter of a trillion dollars, the TSP is certainly the biggest retirement system in the country.

Chairman Saul pointed out that the plan has grown from 3 million participants to over 4 million participants since the current members began their terms. That represents a one third increase in enrollment. He commended the Agency and its senior staff for keeping participants' retirement savings safe, secure, and growing during economically tumultuous times.

Mr. Long noted that TSP participants rolled a record breaking amount of money into the TSP from other retirement plans or accounts. According to Ms. Wilder, TSP participants rolled over \$66 million by this March. In comparison, TSP participants rolled over about \$33 million in the first three months of the prior year. Ms. Moran explained that both the rate of roll over occurrences and the overall dollar volume rolled into the TSP have increased. She also mentioned that Mr. Trabucco talks about rollovers on a radio show about every six months and receives a good response.

Mr. Long mentioned that private mutual fund companies probably spend more on advertising in places like airports than the Agency's communication staff spends in a year for its entire operation. Despite having limited funds to advertise relative to large private financial institutions, the Agency still manages to successfully spread the message that participants can roll their money into the TSP.

Mr. Sanchez asked if the rollover option is restricted to high-level administration appointees. Mr. Long answered that the rollover option is available to all participants. He further explained that it is an especially valuable option among uniformed services members. Uniformed services members may move into the private sector following military service and have multiple jobs over the course of their careers. Each time they terminate employment and move to a new job, they experience a distributable event which allows them to rollover money from their private sector employer plan to their TSP account.

Chairman Saul asked if participants who have uniformed services accounts can make contributions while working in the private sector. Mr. Long explained that they cannot make contributions if they are separated from Federal service, but they can keep their TSP account open for life and roll money into it each time they have a distributable event such as termination of employment with a private sector employer.

Chairman Saul observed that the fact that the TSP has had more rollovers into the plan than out of the plan indicates that the TSP is very competitive with the private sector. He also suggested that the TSP should use its web site as its primary marketing tool. Mr. Whiting said that the TSP is even more competitive

when one compares the TSP's favorable expense ratio with the expense ratios of private sector plans and institutions. Mr. Sanchez added that there simply is no comparison to the TSP.

c. Legislative Report

Mr. Trabucco reported on legislation which was introduced to allow TSP contributions from terminal annual leave lump-sum payments. The bill (H.R. 4865) was approved by full Committee in the House and unanimously ordered reported by the Committee.

Chairman Saul took a moment to re-emphasize the importance of the new web site as a marketing tool for the TSP and inquire about its status. Mr. Long responded that the Agency is in the process of load testing the web site. That is, the Agency is hiring a contractor to test the web site's response to a high volume of participants simultaneously accessing the web site. The Agency still anticipates that the new web site will go live by the last day in May. However, Mr. Long noted that the web site's launch may be delayed a couple weeks if problems are encountered with the load test.

Chairman Saul asked Ms. Moran how much of the TSP's communication with its participants is conducted over the TSP's current website and asked Mr. Long how many hits the web site gets in a day. Mr. Moran explained that the web site is the TSP's most popular means of communicating with participants and Mr. Long responded that the web site gets tens of thousands of hits per day.

Chairman Saul asked the senior staff to develop a plan for how the Agency intends to use the web site to inform participants about the TSP's competitive advantages relative to private sector institutions. The senior staff agreed to refer to this plan as the web site communications strategy. Chairman Saul asked the senior staff to put the web site communications strategy on the agenda for one of the next two Board meetings.

Chairman Saul asked if the new web site can stream video and therefore allow the TSP to discontinue mailing educational DVDs. Mr. Whiting expressed concern that some participants may not have computer access.

Mr. Sanchez recommended that Mr. Long deliver the Executive Director's message via video in addition to posting it on the web site in letter form. Mr. Long said that the Agency is already planning on doing exactly that.

Ms. Moran explained that the development of the web site will be an ongoing process and the web site will evolve as the Agency explores existing media types and new media types become popular. She further explained that the web site has been designed to provide flexibility in the Agency's web site communications strategy.



Mr. Sanchez noted that the new web site is a vast improvement from the existing one. Mr. Trabucco agreed, but also remarked that the existing web site has received positive comments from the press in recent months. A new feature allows participants to sign up to receive an e-message alerting them when there is new information posted on the TSP web site. Over 200,000 people have signed up to receive these e-message alerts.

Mr. Sanchez asked Renee if she has any comments or concerns about participant loan activity. Ms. Wilder said that the loan activity for the first three months is slightly higher compared to the first three months of last year. It is about 1000 per month above last year. But she further explained that the loan activity has not increased on a percentage of participant basis. Mr. Long added that, while TSP participants have over 800,000 loans, the TSP's participant loan activity is consistent with the participant loan activity of other plans when compared on a percentage of participant basis.

Mr. Whiting asked if the Agency has considered whether its \$50 loan fee is still an appropriate amount. Mr. Long explained that \$50 is the average loan fee among 401(k) plans. Chairman Saul recalled that the purpose of charging a loan fee is simply to prevent participants who do not borrow from bearing costs of processing loans for those participants who do borrow. Mr. Long offered to look into whether the \$50 loan fee still covers the expenses of processing a loan. Chairman Saul and Mr. Whiting emphasized that the loan fee should be revenue-neutral.

d. Quarterly Investment Performance Report

Ms. Ray reviewed the April 9, 2010 memorandum, entitled "March 2010 Performance Review" (attached). BlackRock Funds closely tracked their underlying indices for the month of March and the year-to-date. Trading costs remain low.

The G Fund rates for the month of April went up a quarter of a percent due to increases in the yield on the 10-year and 30-year bonds.

The C, S, and I Funds experienced the largest returns since July of last year. The C Fund is up 2%, the S Fund is up 4.4%, and the I Fund is up 1.9%. The S Fund is up 15% for the year-to-date.

The F Fund was the only negative returning fund in March. It was down .11% in March, but it is up .65% so far this month.

Chairman Saul observed that the Thrift Savings Fund grew in assets \$8 billion in one month. Ms. Wilder added that \$1.9 billion of that growth is attributable to participant contributions.

The L Funds rise with the equity markets, and the longer the fund the better the performance. A record 12% of FERS account balances and 17% of uniformed services account balances were invested in the L Funds in March. The number of participants with L Fund balances approached 700,000.

Mr. Sanchez mentioned that he spoke with a group of young soldiers who expressed appreciation for the L Funds. Mr. Long commented that the L Funds are built for people like young soldiers who have more important things on their mind than following the stock market.

The I Fund is the worst performing fund. As a result, participants have been transferring money out of the I Fund for the last three months.

Participants made over 120,000 interfund transfers in March as they moved \$1.3 billion from the G Fund to primarily the S Fund and the L Funds.

Ms. Ray noted that an independent audit shows that BlackRock voted all of its proxies in line with their proxy guidelines during fourth quarter of 2009.

The members then revisited the Board's investment policy and made, seconded, and adopted the following resolution by unanimous vote:

#### RESOLUTION

WHEREAS the Federal Employees' Retirement System Act of 1986, as amended (5 U.S.C. § 8401 et seq.) provides that the Board members shall establish policies for the investment and management of the Thrift Savings Fund (5 U.S.C. § 8472(f)(1) and (2)); and

WHEREAS the Board members at this meeting have reviewed the investment performance and investment policies of the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock Index Investment Fund, and the International Stock Index Investment Fund; and

WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;

NOW THEREFORE BE IT RESOLVED that the current investment policies for the Government Securities Investment Fund, the Fixed Income Index Investment Fund, the Common Stock Index Investment Fund, the Small Capitalization Stock

Index Investment Fund, and the International Stock Index Investment Fund are affirmed without change.

e. Quarterly Vendor Financial Report

Mr. Petrick reviewed the April 9, 2010 memorandum, entitled "Quarterly Financial Assessment of TSP's Primary Vendors – April 2010" (attached). Serco Services, Inc. continues to be profitable and stable. It has been about a year since its merger with SI International. It was a well integrated merger, and the Agency has no cause for concerns going forward.

BlackRock is also profitable and stable. The large increase in their balance sheet numbers is due to the acquisition of BGI. The biggest balance sheet item that BlackRock picked up in the acquisition is individual life insurance accounts, which are required by the accounting rules to be listed as both an asset and a liability.

Switch & Data achieved profitability for the first time in 2009. Switch & Data's acquisition by Equinix, Inc. is expected to occur in the second quarter of 2010. The shareholders approved all of the necessary votes. The acquisition is simply awaiting the necessary regulatory approval.

Chairman Saul asked if Equinix will be the surviving company. Mr. Petrick responded, yes. Chairman Saul then asked Mr. Hagerty his opinion of Equinix's reputation. Mr. Hagerty replied that Equinix is a solid performer. Equinix appears to have acquired Switch & Data primarily for its domestic market. Mr. Hagerty sees the acquisition as adding nothing but strength to the relationship. Mr. Fink observed the amount of Equinix's capital. Mr. Petrick agreed that Equinix is larger than Switch & Data and that its financials also look stronger.

R.R. Donnelley & Sons has lost money over the last couple of years and has been shrinking its operations. However, Mr. Petrick explained, this is consistent with the general shrinkage in the printing industry. R.R. Donnelley & Sons is still the largest printing company in the U.S. and there is no evidence that the Agency should be concerned about R.R. Donnelly & Sons' ability to fulfill its contractual obligations to the Agency.

Mr. Sanchez asked if R.R. Donnelley is still doing the Agency's printing in the United States. Mr. Petrick explained that they are required by the contract to do the Agency's printing in the United States. Mr. Sanchez asked how the Agency knows that the company is abiding by this contractual requirement. Ms. Moran explained that her staff conducts on-site reviews of the company's facilities. For example, one of the Agency's staff members usually spends a week at the company's facilities in Logan, Utah each year when the annual statements are being printed.

Metlife's current financial position is strong and it remains the largest life insurer in the United States. Although Metlife reported an uncharacteristic loss in 2009, it continues to have adequate reserves and there is no indication that it would be unable to meet its contractual obligations to the TSP. That said, two credit reporting agencies have placed Metlife's ratings under review based on Metlife's disclosure of a potential acquisition.

Mr. Petrick does not believe that Metlife's current ratings situation is any cause for concern for the Agency. Deteriorating credit ratings are being experienced industry-wide. Moreover, as of March 8<sup>th</sup>, 2010, Metlife is still receiving ratings that represent "Superior", "Very Strong", and "Excellent" credit.

Nevertheless, the Agency is taking proactive steps to ensure that its annuity provider's financial position meets the highest standards. The Agency is conducting regular discussions with MetLife about its financial situation and is seeking an expert review of the adequacy of Metlife's current ratings.

Chairman Saul asked when several of the contracts with our vendors expire or come up for renewal. Mr. Petrick responded that Metlife's contract will be revisited this year. Chairman Saul asked more specifically about the Agency's contract with Serco. Mr. Hagerty explained that the Agency's contract with Serco is revisited on a year-to-year basis. He further explained that the Agency is committed to doing a large procurement for record keeping services after the modernization project is complete.

Chairman Saul asked Mr. Hagerty about the status of the modernization project. Mr. Hagerty responded that the Agency is in its final stages of testing the storage area network and that it will be complete by the end of this calendar year. Mr. Hagerty also said that he is planning on being out of the old data center by September.

Mr. Sanchez asked Mr. Hagerty when he last time visited one the Agency's sites in Pittsburgh. Mr. Hagerty said that it has been about a month and a half. He said that nothing has changed since the Board members themselves visited the site.

Mr. Petrick noted that the Agency also contracts with a closely-held company called Active Network to run the Agency's call center in Maryland. But since the company is privately held, he cannot discuss its financials at a public meeting.

Mr. Fink asked for clarification regarding whether the pending transaction between Switch & Data and Equinix is a merger or an acquisition. Mr. Petrick responded that Switch & Data is being acquired by Equinix.

f. Financial Statement Audit



Mr. Long introduced the TSP's team of independent auditors from Clifton Gunderson to present the results for their audit of the Thrift Savings Fund's financial statements for the year ending December 31, 2009 : Marie Caputo, Audit Partner; Heather Plitt, Financial Audit Manager; and George Fallon, IT Partner. Mr. Long then gave the floor to Mr. Petrick for further comment. Mr. Petrick took the opportunity to commend Anne Beemer and Susan Crowder for their contributions to the Agency's internal controls and accounting operations.

Ms. Caputo began her presentation (attached) with a brief overview of the scope of the audit. The audit was conducted in accordance with Generally Accepted Auditing Standards. The auditors did selective testing of manual and technology-related controls to formulate a risk matrix, as well as to develop a plan for substantive audit procedures. They also assessed accounting principles and tested estimates made by Agency management in developing financial statements, such as those estimates associated with the valuation of investments. Ms. Caputo cautioned that the purpose of evaluating the internal controls was to express an opinion as to the financial statements and not as to the internal controls themselves.

With the scope of the audit explained, Ms. Caputo said she was pleased to report that Clifton Gunderson has provided the Agency with an Unqualified Audit Opinion. She further said that the audit team did not find any material weaknesses in the Agency's internal controls over financial reporting that would affect the financial statements.

The audit team did, however, report one significant deficiency relating to Certification and Accreditation, Risk Assessment Process, and the Security Plans of Actions and Milestones. Ms. Caputo took a moment to explain the current definition of "significant deficiency." The relevant inquiry to determine whether a significant deficiency exists is whether the control deficiency is of a magnitude significant enough that it could result in an error in the financial statements that in the auditor's judgment would be less severe than a material weakness, but significant enough to bring to the attention of those who are charged with the governance of the organization.

Chairman Saul asked the auditors to elaborate on Certification and Accreditation, Risk Assessment Process, and the Security Plans of Actions and Milestones. Mr. Fallon explained that it is a formal, documented risk assessment of the Agency's information security systems.

Mr. Hagerty provided further elaboration. He explained that what Mr. Fallon referred to is the Certification and Accreditation required by the Federal Information Security Management Act (FISMA). He explained that it is a comprehensive and labor-intensive manual audit of the information systems looking at policies, procedures, controls, contingency plans, etc. to identify and document



risks. It forms the basis for moving forward with a plan of action and milestones to mitigate those risks.

Mr. Hagerty said that he is not happy with the Agency's pace, but that it is really a result of focusing resource on the modernization initiative and also erring on the side of implementation vis-à-vis documentation. He added that the Agency is in the process of hiring additional IT security staff to document its risk assessment efforts.

Mr. Long agreed that it would not be a good use of resources to spend a great deal of effort documenting the old IT infrastructure in the midst of modernization. Instead, the Agency would like to complete its modernization initiative and then get certification and accreditation for the new IT infrastructure.

Mr. Fink pointed out that the audit report also recommends that the Agency complete background checks for all of its employees before granting system access. Mr. Petrick reported that the Agency has made significant progress on background checks in the last year. Background checks have been initiated or completed on more than half of the Agency's staff. He expects to have background checks completed for the entire staff in September.

Mr. Petrick also pointed out that the Agency does background checks on its contractors, although they are not necessarily U.S. Office of Personnel Management (OPM) compliant. Mr. Sanchez inquired about the difference between the OPM compliant background checks and the background checks that the Agency conducts on its contractors. Mr. Petrick explained that the OPM background checks are more intensive and extensive. Mr. Sanchez asked if we could adopt some of OPM's procedures.

Mr. Long explained that the background checks conducted for Agency staff are OPM compliant and it is only background checks conducted for contractors that are not. Mr. Sanchez said he wants to ensure that contractors are being scrutinized sufficiently.

Mr. Petrick explained that it may unrealistic to conduct OPM compliant background checks on contractors because it might slow down the hiring process to such an extent that it would be difficult to hire contractors. However, Mr. Petrick said that the issue will be given more consideration once background checks for Agency staff have been completed.

To demonstrate the length of the OPM background check process, Mr. Long noted that his own background check cleared in a routine manner and, nevertheless, took four months to complete. He expressed concern that the Agency may not realistically be able to hire contractors and ask them to wait four months before starting work. It is a business decision that will need consideration, he said.

Ms. Caputo concluded with her audit presentation. She said that the most significant estimate that the audit team evaluates is the valuation of investments. She was pleased to report that her team found no misstatements that they felt needed to be brought to the Board's attention. She also thanked Anne Beemer and Mark Hagerty for working with her team in such a cooperative and collaborative manner.

At the conclusion of Ms. Caputo's presentation, Mr. Fink asked whether the audit team tested the value of the cash collateral fund that is part of the Agency's securities lending program. Ms. Caputo explained that her team did not test the cash collateral fund associated with securities lending. The audit covers each of the TSP's investments funds, including the securities lending arrangement, but does not separately test the collateral associated with the securities lending arrangement.

Mr. Sanchez and Mr. Fink expressed a great deal of concern that the auditors did not test the cash collateral fund given that, in their opinions, securities lending is the riskiest operation of the TSP.

Mr. Long reassured Mr. Sanchez and Mr. Fink that Clifton Gunderson's treatment of the cash collateral fund is in line with industry practice. Mr. Petrick added that Clifton Gunderson did what the Agency hired them to do. Chairman Whiting expressed doubts as to whether Clifton Gunderson would even have the authority to test the cash collateral fund.

Mr. Long suggested that, at the request of the Board, the Agency could secure additional auditing resources to test things such as this which may be outside the normal scope of this audit. Ms. Caputo explained that evaluating the cash collateral fund is within the scope of the auditing procedures but that, in her professional judgment, it was not necessary to do so. Chairman Saul emphasized that the Board is entitled to rely on its auditor's professional judgment when the Agency is issued an Unqualified Audit Opinion.

Chairman Saul and Mr. Sanchez thanked Ms. Caputo and her team after she again reassured them that, in her professional judgment and that of her firm, the Thrift Savings Fund's financial statements are presented in all material respects in accordance with Generally Accepted Accounting Principles and that she has sufficient evidence and documentation to support the numbers and the information incorporated in the presentation.

Mr. Fink asked whether there is anything the Agency can do to better ensure that there is no fraudulent activity with respect to "dormant" accounts. Mr. Long clarified that Mr. Fink was referring to accounts for which there is no activity (e.g. interfund transfers) for long periods of time and for which the Agency has had difficulty locating the participant or beneficiary.

Ms. Moran noted that the Agency has incorporated into its procedures use of the Social Security Administration's master death file to identify accounts that are owned by deceased participants and which have not been claimed by any potential beneficiaries. Mr. Sanchez pointed out that the number of "dormant" accounts is decreasing each year because the Agency is getting better at locating missing participants and beneficiaries.

Chairman Saul asked if there were any other matters to discuss before the Board went into closed session. Mr. Whiting took the opportunity to inquire about the status of the A-123 program. Mr. Petrick answered that the Agency is on the verge of hiring people to oversee the A-123 program. Mr. Whiting asked how long the project will take to complete. Mr. Petrick explained that it is an ongoing program, but he expects to be able to report progress towards the end of this year.

3. Closed Session.

On a vote taken by the Secretary, the members closed the meeting at 11:00 a.m. for executive session.

At 12:37 p.m., upon completion of the executive session, the members reconvened the open portion of the meeting.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 12:37 p.m.

MOTION: That this meeting be adjourned.



Thomas K. Emswiler  
Secretary

Attachments

1. Financial Literacy Month Materials
2. Thrift Savings Fund Statistics
3. March 2010 Performance Review – G, F, C, S, I, and L Fund
4. Quarterly Financial Assessment of TSP's Primary Vendors – April 2010
5. Financial Statement Audit Presentation