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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

February 21, 2006

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on February 21, 2006, at 9:03 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; Thomas K. Emswiler, Acting Secretary and Acting General Counsel; Mark Hagerty, Chief Information Officer; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs. Also in attendance were officials from the Department of Labor and KPMG LLP.

1. Approval of the minutes of the January 17, 2006, Board member meeting.

Mr. Saul entertained a motion for approval of the minutes of the January 17, 2006, Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the open portion of the Board member meeting held on January 17, 2006, be approved.

Mr. Saul then remarked that a number of Agency employees were leaving the Agency through the Agency's early retirement and separation incentive program and that he wanted to acknowledge them for their hard work, many from the Thrift Savings Plan's inception, to enable the TSP to become the greatest 401(k) plan in the country. In particular, he singled out Elizabeth S. Woodruff for her exceptional contributions as General Counsel and Secretary to the Board. He especially praised Ms. Woodruff's contributions during the period the Agency did not have an Executive Director and during which the Agency was undergoing substantial change. He then expressed his desire to issue a Proclamation to thank Ms. Woodruff and the other separating employees for their outstanding contributions:

PROCLAMATION

WHEREAS numerous long-term Agency employees are retiring under the Agency's early retirement and separation incentive program; and

WHEREAS the outstanding contributions of these employees have made the Thrift Savings Plan the best 401(k) plan in the country; and

WHEREAS the exceptional efforts of Elizabeth S. Woodruff as General Counsel and Secretary to the Board have in particular been noted by the Board, especially during the period the Agency was without an Executive Director; and

WHEREAS the Thrift Savings Plan has been a highly successful, cost-effective retirement savings program for over 3.6 million Federal employees and members of the Uniformed Services, in large measure because of its exceptional governance and administration:

NOW THEREFORE BE IT RESOLVED that the members of the Federal Retirement Thrift Investment Board express their deep appreciation to Elizabeth S. Woodruff and these other long-term Agency employees for their outstanding contributions to the governance and administration of the Thrift Savings Plan.

2. Department of Labor audit program.

Mr. Petrick reviewed with the Board members the findings and recommendations contained in the three audit reports that were produced by the Department of Labor (through its contractor KPMG LLP) during its FY 2005 program of fiduciary compliance audits. The three reports were: Review of the Thrift Savings Plan Parallel Call Center at Spherix Incorporated, May 27, 2005; Review of the Thrift Savings Plan Mainframe Operations, dated October 7, 2005; and Review of the Thrift Savings Plan Withdrawals Process, August 24, 2005.

a. Review of the Thrift Savings Plan Parallel Call Center at Spherix Incorporated.

Mr. Fink inquired about who was reviewing customer satisfaction with the call centers. Ms. Moran explained that the surveys were on-going (although temporarily suspended due to Hurricane Katrina). Mr. Fink asked to see a good cross-section of the results of these surveys and was promised they would be provided at the next Board Member meeting.

Mr. Sanchez stated that the most important feature was security. Mr. Hagerty explained that Cumberland had implemented all security requirements imposed by the Agency. He explained that Clintwood did not have similar requirements because the facility is solely devoted to TSP functions. Cumberland, being a mixed-use facility, required additional security features.

Mr. Saul asked whether the calls were recorded so that any complaints received could be reviewed to ensure that they were accurate. He was told that they are recorded, reviewed and graded, and that they are maintained in a format that essentially makes them available forever.

Messrs. Saul and Sanchez noted that the Agency manages risk better now that it has two call centers on different electric and telephone grids. They noted that privatization imposes new risks and that the Agency has been monitoring these risks and regularly reporting on them to the Board.

b. Review of the Thrift Savings Plan Mainframe Operations.

Mr. Saul expressed his satisfaction that the Agency now has an on-line, hot-wired back-up system in Pittsburgh. The old back-up system would have taken about thirty days to bring on-line. He was told that the Agency could now shift-over to the back-up system in two to four hours and that the disaster recovery audit was on-going with a major test of the system to follow soon.

Mr. Sanchez asked about the monthly security awareness bulletins Mr. Hagerty was issuing. He was told that they involved topics that are relevant for each month. This month's bulletin included e-mail, spam, and IT security.

c. Review of the Thrift Savings Plan Withdrawals Process.

Mr. Whiting asked whether people could complete a withdrawal on-line or in writing. He was told that everyone could initiate one on-line, but that a married participant, covered by FERS, require the written consent of his or her spouse.

He went on to inquire about the difference in time and was told that it was mail. Once a withdrawal application is complete, payment is issued in 3-5 days. He was told that the spousal consent could be faxed even though it needed to be notarized. The Agency learned that not every state requires a raised seal notarization and therefore an original frequently provided no additional protection.

Mr. Fink inquired about what evidence was required to protect participants from fraudulent withdrawals initiated on-line. He was told an applicant need a social security number and a PIN. Additionally, the Agency sends a letter confirming the withdrawal to the participant's address. We have no way of knowing whether the payment is sent to the participant's bank because until the participant initiates a withdrawal we don't have any banking information on the participant.

Mr. Sanchez expressed concern over senior citizens being coerced to make withdrawals or someone, such as the senior's son, attempting to gain account information in order to make a fraudulent withdrawal. He was told that we would never release the information necessary to make a withdrawal to a third party. We also have procedures to ensure that someone submitting a Power of Attorney is actually authorized to conduct business on behalf of a participant. Additionally, when we learn of a possible fraudulent withdrawal, we investigate immediately and will refer an appropriate case to the Department of Justice for possible prosecution. He was assured that Call Center personnel would be sensitive to ensuring senior citizens are protected.

3. 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 2005 fiduciary compliance audit and to discuss plans for the FY 2006 audit program. Present from the Department of Labor were William Bailey. Present from KPMG LLP were Diane Dudley, Heather Flanagan, Felipe Alonso, Derek Thomas, and Greg Ruck.

Mr. Whiting asked why the CIA was audited every three years. He was told that it was the CIA's own audit schedule. He was also told that for many aspects of TSP operations, the CIA serves as a fiduciary.

Mr. Saul stated that the upcoming audit of the Agency's disaster recovery capability was the most important audit and asked what it would entail. He was told that KPMG had provided an audit plan to the Agency, had visited the Pittsburgh site, and would evaluate the upcoming disaster recovery test.

Mr. Sanchez asked why KPMG planned to audit the Army this year. He was told that they audited a small Service last year (the Marines) and wanted to look at a larger Service this year. KPMG's funding does not allow them to cover everything every year. Instead, KPMG tries to cover all aspects of TSP operations in a three-year cycle. KPMG will evaluate other Services in coming years.

Mr. Fink inquired about the audit recommendations regarding the Agency's annuity provider that were still open from last year. He was told that the Agency considers them closed, but that KPMG needed to revisit the annuity provider to verify and that this had not been part of their 2005 audit and would not be part of the 2006 audit.

Mr. Whiting asked of the 23 open audit recommendations, how many does the Agency believe are closed. He was told about one-half. He also asked how KPMG picked items to audit. He was told KPMG follows a risk-based approach and tries to cover all aspects of TSP operations in a three-year cycle.

Mr. Whiting and Mr. Sanchez expressed their frustration that items remained open for so long. They were told that the Department of Labor has done its best to close open issues and that if funds remained at year's-end, they would try to close additional issues.

Mr. Saul stated that he believe the auditors were evaluating the most critical factors and encouraged them to contact him and the other Board members if they ever had any concerns regarding Agency operations.

4. <u>Thrift Savings Plan activity report by the Executive Director</u>.

a. <u>Legislation</u>.

Mr. Trabucco reported on legislation that would require participants convicted of felonies to forfeit TSP contributions attributable to their employers (as is currently done for espionage convictions). He indicated that the Agency was concerned about this because the TSP is a property right and not a promise to pay like a pension. He noted that the Congressional Research Service has issued a report consistent with the Agency's concerns. He also commented on legislation that would allow civilian employees to contribute to the TSP from bonuses and on the Army's pilot program to provide matching contributions to new recruits. Messrs. Saul, Sanchez, and Whiting encouraged the Agency to assist the Army with this program and to try to increase contributions from members of the uniformed services. They were assured that the Agency is assisting in these efforts.

Mr. Amelio reported that Mr. Trabucco and Ms. Ray had met with staff members of the House Government Reform Committee to inform them of the Board members' vote to maintain the current index funds and that the Committee staff appeared pleased with that result.

Mr. Trabucco commented on the temporary suspension of issuing securities to the G Fund. He noted that this occurs every time Congress reaches the debt limit but a law enacted in 1987 ensures that participants' accounts are made whole when the debt ceiling is lifted.

b. Interagency Agreement with the Department of Agriculture.

Mr. Amelio reported that the Department of Agriculture had finally contacted the Agency regarding its bill for services rendered to the Agency by the National Finance Center. He was pleased to report that he anticipated settling the matter this week and to come in under budget.

c. Monthly participant correspondence.

Mr. Amelio reported that the Board members' package included the report on participant correspondence that Mr. Fink had requested at the January meeting. The Board members asked several questions concerning the report including who signs the Agency's response. They were told that various Agency staff members sign the responses depending on the area of inquiry and the level of complexity. Mr. Saul asked why we had 2,000 letters this year and only 1,000 in 2003 when we had difficulties associated with new system implementation. He was told that participants called to complain in 2003 instead of writing. He was also told that most correspondence were not complaints but were instead requests for information; much less than 1 percent would constitute a major complaint.

e. Monthly Investment Activity Report.

Ms. Ray reported that investment fund tracking errors were minimal. The small-cap fund was 11 basis points (which is still small), because it does not include all stocks in the index. She noted that the S and I Funds have had a phenomenal month with both up over 6 percent. She noted she was encouraged by the exceptional growth of the L Funds. Mr. Fink commented that page three of the report showed a .08 difference between Barclays net rate of return for the F Fund and the Agency's net rate of return for the F Fund. Ms. Ray explained that this was due to rounding. If the Agency rounded to six places rather than two it would be much closer. Additionally, the Agency must round down in every instance because rounding-up would be creating money.

Mr. Sanchez noted that there had been an encouraging trend in participants moving money from the G Fund to the other funds. He was told that when Mr. Amelio took over, 52 percent of the TSP had been invested in the G Fund and now only 36 percent was. This was due to the Agency offering L Funds and the good performance of the equity markets.

Mr. Whiting asked if someone was actively managing his account, how would he do vis a vis the L Fund. He was told that someone actively managing his account, would likely invest aggressively. This means that he would outperform the L Funds when equity markets are rising but under-perform them when equity markets are falling.

Mr. Sanchez noted he was pleased to see that average monthly contributions by participants were rising. This was attributable to five factors: an increase in the annual dollar amount participants could invest, removal of the monthly percentage of pay limits, the change that allows participants to change their contribution decisions at any time, the rising equity markets, and improved TSP education materials.

5. Closed session.

On a vote taken by the Acting 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, Mr. Hagerty, Ms. Ray, 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 1:40 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.