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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

March 19, 2007

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on March 19, 2007, at 9:05 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; Thomas K. Emswiler, Acting Executive Director and General Counsel; Mark A. Hagerty, Chief Information Officer; Gregory T. Long, Director of Product Development; Pamela-Jeanne Moran, Director, Participant Services; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; Stephen Suetterlein, Acting Secretary and Associate General Counsel; and Thomas J. Trabucco, Director, External Affairs.

1. Approval of the minutes of the February 20, 2007 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the February 20, 2007 Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board member meeting held on February 20, 2007, be approved.

2. DOL Audit of Army TSP Program

Mr. Emswiler asked whether the Board desired to place the DOL Army audit response on the agenda for April. After discussion, the Board decided that it did not need to be placed on the agenda since the Board heard the DOL report on the Army last month and will hear the report on the Army Pilot Project this month.

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

a. Monthly Participation Activity.

Mr. Long reviewed the report on TSP statistics (attached). He noted that the fund balances were flat. Based on the depressed market conditions in February, this shows the benefit of large monthly cashflows. The number of Plan participants increased over last month. The Uniformed Services showed an increase of 14,000 participants spread across all the Services.

b. Monthly Investment Activity Report.

Ms. Ray reviewed the March 8, 2007 memorandum (attached), on the performance of the G, F, C, S, I, and L Funds during February 2007.

Mr. Saul commented on the recent market volatility and that it wasn't catastrophic. He hoped that people did not react and adversely affect their long-range retirement goals.

Ms. Ray noted that the I Fund underperformed the index by 61 basis points in February. This is the result of the fair market value adjustment. In January, the index outperformed the index by 62 basis points because of the fair valuation adjustment. This month's adjustment was expected and we wanted this to happen to bring this into alignment. This brings the year-to-date performance in line with the index, up 1.5 percent versus 1.49 percent.

Ms. Ray discussed the participant behavior during February and the first part of March. Participants in the C Fund traded over $800 million worth of securities in February. Counting only the first half of March, participants have already traded $1.3 billion dollars, eclipsing the previous monthly high of $1 billion set last June. Participants in the S Fund traded $900 million in February and $1.1 billion already in March, eclipsing the previous high of $1 billion set last June. Similarly, the I Fund had $1.7 billion traded during February and $2.6 billion traded already in March compared to $2 billion traded last June. On March 5, participants liquidated almost $800 million in I Funds. We hope that more participants get in the L Funds and stay the course. Some participants were buying when the market went up and selling when the market went down.

Mr. Saul questioned whether the amount of selling was large compared to the size of the Plan. Ms. Ray said that the I Fund has $22 billion in assets and $2.6 billion was traded already in March. The S Fund has $16 billion in assets and has had $1.1 billion traded already in March.

Ms. Ray described the year-to-date performance of the C Fund as down 1.8 percent while the I Fund is up .36 percent and the S Fund is up 1.01 percent. The G Fund rate paid 4 7/8ths in February and 4 5/8ths in March. The F Income Fund performed the best and the 2040 L Fund performed the worst in February. This performance was expected in this type of stock market. The year-to-date shows the 2030 L Fund is up a little over the 2040 L Fund even though the stock market has been up. This is because we truncate the prices to two decimal places. Without the truncation, the 2030 L Fund would have been up 0.86 and the 2040 L Fund would have been up 0.89. The L Funds were then compared to the volatility shown in the underlying funds on page 5.

Mr. Saul commented that we should watch and monitor the performance of the L Funds compared to the underlying funds in this period of volatility. After this period of volatility, we may want to do some education.

Ms. Ray said the worst L Fund annualized return from inception was the Income Fund at 6.67 percent which was still better than the G Fund at 4.8 percent.

Ms. Ray reported that 4 percent of our participants have their entire account balance invested in a lifecycle fund. The number of FERS participants in the L Funds has increased from 55,000 in December 2005 to 100,000 last month. CSRS participants have increased from 17,000 to 26,000 and Uniformed Services have increased from 14,000 to 30,000. In addition, 13 percent of FERS participants have some of their money invested in a lifecycle fund compared to 9 percent of CSRS participants and 15 percent of Uniformed Services. Approximately 456,000 participants have balances in the lifecycle funds with $18 billion in assets.

c. <u>Legislative Report</u>.

Mr. Trabucco reported on recent legislative proposals from Congress. The first is a reintroduced bill called KidSave which would set up a TSP account for every child born in America. We would work with the Social Security Administration on that. The bill number is H.R. 242, but its prospects are dim.

The next legislation is a reintroduced bill, H.R. 180, that would require all companies that are trading in securities to disclose their business operations in Sudan.

Legislation was introduced last week and calls Federal pension plans to divest from companies that invest in Iran's energy sector.

A proposal that has not yet been introduced would require the TSP to divest from companies that are related to terrorism. Not much is known about this proposal. An op-ed piece appeared in the Washington Times last week by Frank Gaffney who is promoting this. He created a list of companies that he views as giving terrorists business. Because we have broad based index funds, many of these proposals would affect the TSP.

The REIT bill, the Gold Fund bill, and the corporate responsibility bill have not been reintroduced. We will keep our eyes open for these bills.

Mr. Trabucco then reported on the Army Pilot Project regarding matching contributions. A total of 3,308 soldiers have signed up for the program with 1,635 in FY06 and 1,673 for this year. They must enlist for five years in a designated critical specialty in order for the Army to provide the same matching contribution that is provided to FERS employees.

Mr. Saul asked if this was a recruiting tool and how would the Army evaluate the program. Mr. Trabucco replied that it was a recruiting tool and that the Army must report to Congress in February of next year. We will have information on whether the Army considers the program a success. The Army will report on whether it helped with recruitment and retention. The other Services might be control groups, to some extent, that are still using their normal procedures for recruitment.

Mr. Saul asked if the report would go to the House and Senate Armed Services Committees and if there was anything that we can do. Mr. Trabucco replied that the report would go to the House and Senate Armed Services Committees and that we were doing everything that we could.

Mr. Saul emphasized this was very important because the only way to grow is to increase the participation rate for the military. If the military received a match, its participation would probably be the same as the civilian workforce. This is important and we should put the emphasis and time on this. This would be a good project for Mr. Emswiler to work on because of his military background.

Mr. Emswiler replied that he has already helped Ms. Moran in getting the recruiting pamphlets out and getting them into the recruiting channels.

4. New Business.

a. Communication.

Ms Moran reported that the April Highlights (attached) included an article, "Your TSP IQ." The questions were to be both informative and amusing. We also provided the answers and where the participants could go on the TSP Website for more information.

b. Dormant Accounts.

Mr. Long reported on dormant accounts, referencing the November 9, 2006 and March 9, 2007 memorandums (attached). We find 172,000 participant accounts for a one-year period that showed no contributions, no web inquiries, and no Thriftline activity. There were 130,000 such accounts for a two-year period and 93,000 such accounts for a three-year period. This decrease was expected.

What should be done with the accounts that are dormant over an extended time period was discussed in detail several months ago. Mr. Long reported that he is currently working on a proposal to create a statement that is delivered annually. This may assist with our actions on dormant accounts.

Mr. Whiting asked how the numbers compare on a percentage basis, given the change in number of participants. Mr. Long replied that there was nothing on a percentage basis that showed a dramatic difference from one time period to another time period.

Mr. Sanchez expressed concern for the participants who have been retired for 10 or 15 years. These retirees may be living by themselves and getting up in age. He didn't want that person to forfeit his or her account.

Mr. Long replied that Ms. Moran oversees the efforts when somebody over 70 1/2 does not respond and does not make a decision. There are multiple letters that go out to that person so that there is a significant decrease in the number of people who are not located.

Mr. Sanchez asked if we can cross-reference our addresses with other databases to obtain valid addresses. Ms. Moran explained that every quarter we check the participants' addresses of record against the USPS forwarding address database. If different, we will send the participant a postcard that asks him or her to update the address. The participants call in and we take their address if they are separated or retired. If they are working, we tell them to go back to their agency. We send about 150,000 postcards per quarter. Some of these people are repeats.

Ms. Moran commented that she and Mr. Long have talked about things that we can do, once we get somebody who may not have an address change for a couple of quarters. We may then go back and do another IRS mailing. We haven't recently done a cost/benefit analysis comparing the Social Security Administration mailing expense to the IRS mailing expense. We are working with our mail vendor and other contractors on these communications, so that if they come back, we can count them and identify the return mail.

Mr. Sanchez asked if there was something else we could do for that very small percentage that are elderly and we are not getting any response. Mr. Long replied that a radical idea would be to hire someone to find them.

Mr. Whiting said whether we did that would depend on how much it costs and who should bear the cost of tracking them down. Do we charge that person, or do we spread the cost amongst all the other participants who have been proactive in letting the Agency know where they have moved?

Mr. Long replied that it was a fiduciary question. The question of who pays is an important and difficult question. There are security concerns if we hire somebody since that person could use the information we provide inappropriately. We could do these things, but there are risks and expenses involved. He asked the Board whether they wanted him to explore this option.

Mr. Sanchez commented that we should not cover the costs of a 29 year old Hill staffer who left four years ago, but that we should do everything we can to find the retiree who is getting up in age before the account is forfeited.

Mr. Saul asked if we have more dormant accounts now that we have stopped mailing out statements. Mr. Long replied that we don't know, but that is one of the reasons for the year-end statement proposal. Mr. Long will brief the proposal either next month or the following month with a sample design and a cost estimate.

Mr. Saul commented that this mailing would address some of Mr. Sanchez' concerns with the dormant accounts. The right information and messaging, working with Ms. Moran, will kill two birds with one stone. Mr. Saul wouldn't do any more with the dormant accounts until we do this. He said we would decide on the year-end statements at the next meeting after Mr. Long presents the costs. Upon approval, Mr. Long said that we would mail the year-end statement to all participants in January.

Ms. Moran commented that the year-end statement would also address any number of concerns that we've expressed around the table. We can use this to identify people who have accounts that are dormant or we can use it to establish our roster that we may want the IRS or SSA to use.

Mr. Saul said that he didn't know how everybody else feels, but that he definitely thinks we should move forward and send out the statement to everyone. Mr. Emswiler commented that we will have the report in a month or the month after, so the Board members can look at it at that point.

Mr. Fink commented that he believes that we only have a certain amount of obligation to someone to tell them that we have their money. He believes that we have a heavy obligation to see that there is no fraud in the dormant accounts.

Mr. Long replied that after a decision has been made on the year-end statements that we make a decision what to do, after multiple efforts, with the bad addresses. If we can not find someone, do we put a security hold on the amount so that no money can leave through fraud?

Mr. Fink replied that sending out the annual statement and putting some kind of hold on the account after one year is appropriate due to the large amount of money in those dormant accounts.

Mr. Saul said that the two issues are how much does it cost and do we go ahead with the annual statement. He thought there was consensus on that issue. Additionally, given the annual statement and its messaging, the Board must decide whether to put a security hold after establishing criteria.

Mr. Long replied that his proposal will address those issues.

c. Behavior and Demographics.

Mr. Long commented that the report (attached) looks different from the report previously mailed because Ms. Moran's staff put the charts together and enhanced its appearance.

The survey was the attitudes. This is where we track behavior, what do the participants actually do, and how does that activity differ, based on age, and based on income.

Mr. Long referred to page 3 and said this is where we track the FERS participation rates by age. Each bar represents a new year. For everybody who is between 30 years old and 70 years old, they're pretty much flat and an 88 percent participation rate is the average. The known rate is 86 percent participation. The difference is due to our excluding part-time people and people on Capitol Hill. We typically have challenges in getting people to participate among the youngest groups and among the ones that don't make as much money.

Mr. Long referred to page 4 to look at FERS Participation Rates by Pay Quintile. There is some increase among the lowest paid. In reviewing the FERS Salary Deferral Contribution by Age, Mr. Long commented that we have seen dramatic increases to the deferral rates. This is the impact of the statutory changes in contribution rates. FERS went from 10 to 15 percent, and now, no limit, other than the IRS limits. Where a FERS person in their 60s, five years ago, was deferring 7.5 percent, now in 2005, they are deferring over 11 percent.

Mr. Whiting asked what percentage of deferral would maximize the contribution. He didn't think it was going to be 15%. Mr. Long replied that for most people in the Federal Government it would be above a 15 percent deferral to reach the IRS maximum of $15,500. Federal members are putting in money at rates higher than the private sector. Mr. Trabucco said that the Employee Benefits Research Institute put out a study showing that Federal employees contribute at a higher rate than the private sector by a significant amount.

Mr. Long commented that the change to the statutory contributions made a big difference that translated into more savings. Participation is fine. This is a mature product. There should not be any expectation of any massive growth.

Mr. Saul commented that this was why the military is a really big thing. We would grow from 500,000 to a 1,000,000 or 1,500,000 if the Uniformed Services received a match like the civilian workforce. If we want to grow this plan, other than natural attributions, we need to do something with the Defense Department. We should redouble our efforts.

5. Followup.

Mr. Saul said that the two key followup items for the next agenda are the Army's Pilot Matching Program and Mr. Long's report on dormant accounts and the annual statement.

6. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of personnel matters. Present at the meeting were the Board members, Mr. Emswiler, and candidates for the position of Executive Director.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 1:45 p.m.

MOTION: That this meeting be adjourned.

Stephen Suetterlein
Acting Secretary

NOTE: Ace-Federal Reporters, Inc. made a verbatim transcript of this meeting.

Attachments

1. Thrift Savings Fund Statistics
2. February 2007 Performance Review - G, F, C, S, and I Funds
3. November 9, 2006 Letter on Dormant Accounts
4. March 9, 2007 Letter on Dormant Accounts
5. TSP Highlights, April 2007
6. March 9, 2007 Letter on TSP Behavior and Demographics