



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

MINUTES OF THE MEETING OF THE BOARD MEMBERS

May 22, 2007

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 22, 2007, at 9:00 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, by telephone, Terrence A. Duffy of Illinois, member; by telephone, Gordon J. Whiting of New York, member; Alejandro M. Sanchez of Florida, member; Gregory T. Long, Executive Director; Thomas K. Emswiler, Secretary and General Counsel; Mark A. Hagerty, Chief Information Officer; James B. Petrick, Chief Financial Officer; Tracey A. Ray, Chief Investment Officer; and Thomas J. Trabucco, Director, External Affairs.

1. Approval of the minutes of the April 16, 2007 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the April 16, 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 April 16, 2007, be approved.

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

a. Miscellaneous Matters.

Mr. Long introduced two new employees, Roy Friend, the Operations Manager in the Office of Automated Systems and Megan Graziano, the Assistant General Counsel.

Mr. Long reported that the Agency, on May 5th, introduced a stronger password for participants to use when accessing the TSP via the web. New participants will automatically receive the password. Existing participants will be prompted to create a new password when they access their TSP accounts via the web. More than 869,000 (23 percent) of partici-

pants have created a new password in the two weeks since the Agency introduced it. Mr. Long also reported that the Agency will switch from using Social Security numbers to account numbers later this year. Mr. Hagerty added that eventually we will likely send passwords to participants who do not access their accounts via the web.

Mr. Long reported that Spherix is selling InfoSpherix (which operates the Agency's call center in Cumberland, Maryland) to the Active Network in September. Chairman Saul asked about the nature of the Active Network's current business. Mr. Petrick stated that it is privately held and runs call center operations, particularly reservation operations. Mr. Petrick added that the call center will be relocated to a new site about eight miles away and that it will keep the current employees. Mr. Saul asked why it was relocating. He was told that the current landlord planned to expand and needed the space. Consequently, the call center will move to a new location. Both Chairman Saul and Mr. Sanchez urged Mr. Long and Mr. Petrick to meet with Active Network's principals as soon as possible in order to ensure that the company is financially sound and that its principals are committed to running the Agency's call center. Mr. Long agreed to meet with Active Network's principals in the near future. Mr. Hagerty added that he will do a risk assessment of the new call center site when it is completed.

Mr. Long reported that Mr. Trabucco had been taking him to meet with the newly appointed members of the Employee Thrift Advisory Council and that he had been thrilled with the reception he had received. He also reported that, as part of his outreach efforts, he has been meeting with Congressional staff members.

a. Monthly Participation Activity.

Mr. Long reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). He noted that the plan has grown by almost \$6 billion in one month due to significant cash flows and favorable markets. The overall participation rate increased slightly to 86.2 percent and the total number of participants stands at approximately 3,738,000.

The total number of members of the uniformed services who participate in the TSP decreased slightly but their participation rates increased slightly. This was due to our receiving new force strength numbers from the Department of De-

fense's actuary which showed that the number of individuals serving had also decreased (the DoD actuary provides updated numbers on force strength to the Agency annually). Mr. Long noted that the participation rate for members of the active duty Navy topped 50 percent for the first time. Mr. Sanchez said that this was very good news and commented that almost one-third of the members serving in the Air Force and Marine Corps also participated in the TSP. Mr. Long also reported that he had gone to Bolling Air Force Base to do a one minute promotional spot on the TSP for distribution on the military's television system. The Chief of Naval Operations was also at Bolling to do a spot promoting the TSP.

Mr. Saul recalled that the Agency's former Executive Director had met with a high ranking Marine Corps official to discuss the TSP and asked Mr. Long to follow-up on that. Mr. Long agreed to do that and also to meet with officials from the USO. Mr. Whiting commented that the USO has national and affiliate organizations (for example the New York USO) and said that we should reach out to the Council of USO affiliates and the national organization. He added that his brother is the Executive Member of the USO and that he would be happy to put us in touch with him.

b. Monthly Investment Performance Report.

Ms. Ray reviewed the May 9, 2007 memorandum (attached), on the performance of the G, F, C, S, I, and L Funds during April 2007.

She noted that BGI's international fund underperformed by 67 basis points due to a fair valuation adjustment that was reversed the following day. The S Fund shows an 11 basis point difference due to the sampling technique BGI uses. More than \$1 billion was traded in the I Fund in April and more than \$7 billion for the year. This is double the activity for the same period last year. The trades in the other funds are more than 50 percent higher than the same period last year. The C Fund posted the highest returns in April but the I Fund has posted the highest returns for the year. She reported that 5 percent of members of the uniformed services are 100 percent invested in one L Fund. Net interfund transfers into the I Fund exceeded \$1 billion in April. Over \$20 billion is invested in the L Funds and more than 500,000 participants are invested in the L funds.

Chairman Saul noted that the TSP assets grew by almost \$6 billion in April and asked what was the growth so far in May? Ms. Ray did not have that number but could state that the markets are up two to three percent for the month. Mr. Saul added that we must plan for continued growth because the plan is increasing geometrically. Mr. Long stated that we have done some analysis on cash flows and that they are strong and growing. This growth cannot continue forever but we anticipate it continuing for the foreseeable future. Mr. Saul stated that the TSP is a fantastic, tax-deferred way of saving. Mr. Long added that John Bogle from Vanguard had commented on a radio program that the TSP is possibly the best savings vehicle in America today.

C. Legislative Report.

Mr. Trabucco reported that there had been no new legislation introduced that would affect the TSP. The President has renominated three of the Agency's Board members and the Senate has received the nomination packages.

Mr. Sanchez asked whether the divestment bills pending in Congress were likely to move forward? He was told that the bill pertaining to Darfur was a disclosure bill. The GAO would examine a list of companies doing business in Darfur and would then see to what extent the TSP was invested in those companies. The Iran energy sector bill includes a "Sense of Congress" resolution that the TSP should not invest in companies that do business in Iran or that invest in countries that support terrorism.

2. Annual Participant Statements.

Mr. Long recommended that the Board mail an annual statement to all TSP participants. This would (1) assist the Agency with its education efforts, (2) assist the Agency in delivering benefits, (3) assist the Agency in detecting fraud, and (4) assist the Agency in tracking addresses.

He provided a mock-up of the statement and remarked that it meets best-in-class standards. It will enable the Agency to provide personalized investment performance reports and to provide a personalized message to each participant. He estimated that it would cost \$2.6 million, including postage. Mr. Saul asked whether this would be an additional mailing to participants who already receive quarterly statements by mail and was told that it would be an additional mailing. The annual

statement is different from the quarterly statements. The quarterly statements provide transaction details; the annual statement provides a snapshot of each participant's account and the major things that have happened.

Chairman Saul then entertained a motion regarding the annual participant statement. The following motion was made, seconded, and adopted without objection:

MOTION: That the Agency adopt an annual participant statement.

3. Dormant Accounts.

Mr. Long reported that the adoption of an annual participant statement will give us high confidence that participants are aware of their accounts. Mr. Sanchez asked whether we had a plan to locate those participants for whom we had incorrect addresses. He was told that the system will bar code outgoing mail and this will make it easier for us to track those participants whose mail is returned to the Agency as undeliverable. Mr. Sanchez then asked whether we would mail an annual statement to all participants who have an account balance or only to those who were making contributions. He was told that we will mail the annual statement to every participant who has a TSP account balance. Mr. Sanchez remarked that many of the participants who have dormant accounts are likely senior citizens and the annual statement will remind them, as well as their sons and daughters, that they have an account. He concluded that the annual statement will be very helpful in addressing the Agency's concern about dormant accounts. Chairman Saul asked whether most dormant accounts are small accounts. Mr. Long replied that most are small but a few are as large as \$25,000. We will develop a plan to address those participants who we can't locate by any means; we suspect that most of these participants are deceased. Mr. Saul stated that we don't write off any of these dormant accounts even when there has been no activity for ten years. Mr. Long explained that the only time a participant's account is forfeited to the TSP is when the participant fails to respond to any of the six letters we send (the last is sent certified) to participants explaining that the Internal Revenue Code requires them to begin withdrawing their account because they have reached age seventy and one-half. Mr. Saul stated that we have a fiduciary duty to make our best efforts to contact these participants and that the process of sending six letters, one of which is sent certified, to a valid address satisfies this responsibility. The other Board members concurred.

4. Automatic enrollment, changing the default fund, and establishing a Roth feature.

Mr. Long stated that he will provide his analysis and recommendations on automatic enrollment, changing the default fund, and establishing a Roth feature at the June Board member meeting. We have asked the employing agencies, the uniformed services, and the members of the Employee Thrift Advisory Council (ETAC) for their views on these proposals. The feedback we receive will affect our recommendations. Chairman Saul stated that he agreed with this approach and that he will look forward to hearing Mr. Long's report. He stated that we must make sure that our decision is in the best interest of the participants and beneficiaries. He then asked whether implementing any of these proposals would require changes to the Agency's governing statute and was told that it would. He then asked whether we were developing timelines and keeping our Congressional oversight committees informed that we were considering these options. Mr. Trabucco stated that we were and that we had provided the ETAC letter to them so they are aware that we are soliciting input.

Mr. Saul asked where we stood on implementing the changes authorized by the Pension Protection Act. Mr. Trabucco explained that we had implemented all changes that we could without new authorizing legislation and that we had established a program to ensure that participants who would be affected by these changes were aware of them. Automatic enrollment, changing the default fund, and establishing a Roth feature are the three items we have left to address that resulted from the Pension Plan Protection Act. Mr. Long and Mr. Trabucco noted that private pension plans are considering these same three items.

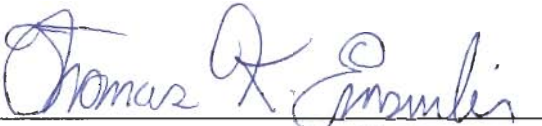
Mr. Sanchez asked about the feedback we had already received. He was told that it ran from "don't do it" to "implement as soon as possible" but that the feedback was constructive and will help us to form our recommendations. Chairman Saul stated that the Board will lean heavily on the Executive Director's recommendations that will be based on input from the ETAC, the employing agencies, the uniformed services, as well as the Agency's senior staff.

5. Closed session.

On a vote taken by the Secretary before the meeting, the members closed the meeting for a discussion of security matters.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection and Chairman Saul adjourned the meeting at 10:38 a.m.

MOTION: That this meeting be adjourned.


Thomas K. Emswiler
Secretary

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

Attachments

1. Thrift Savings Fund Statistics
2. April 2007 Performance Review - G, F, C, S, and I, and L Funds