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

THRIFT SAVINGS PLAN

MINUTES OF THE MEETING OF THE BOARD MEMBERS

January 15, 2009

Andrew M. Saul, Chairman of the Federal Retirement Thrift Investment Board convened a meeting of the Board members on January 15, 2009, at 9:10 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, Thomas A. Fink of Alaska, member; Alejandro M. Sanchez of Florida, member; by telephone, 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; by telephone, 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 December 15, 2008 Board member meeting.

Chairman Saul entertained a motion for approval of the minutes of the December 15, 2008 Board member meeting. The following motion was made, seconded, and adopted without objection:

> MOTION: That the minutes of the Board member meeting held on December 15, 2008, be approved.

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

Mr. Long noted that December was a relatively quiet month as far as market activity. He then introduced members of the Agency's new auditing team, Ms. Marie Caputo and Mr. Bill Oliver from Clifton Gunderson.

Ms. Caputo distributed a document which outlined the Clifton Gunderson engagement team. See "Federal Retirement Thrift Investment Board, January 15, 2009" (attached). Ms. Caputo will be serving as the Engagement Partner on the audit for the year, as well as the Engagement Partner for the interim review which will be conducted during the summer. Mr. Oliver is the unassociated Quality Review Partner. Mr. Oliver will support Ms. Caputo on the audit and any technical matters and will also conduct an upper-level review of the financial statements in key audit areas. Mr. George Fallon is the IT Partner and will be responsible for the technical portion of the audit. Ms. Caputo noted that her firm is not conducting a separate IT audit but the firm is looking, generally, at IT application controls which support the financial statements. Mr. Bob Halpin will be working with Mr. Fallon on the IT side, and Ms. Heather Plitt will be serving as the Financial Audit Manager.

Ms. Caputo noted that there are resources which are not on the chart. Ms. Anita Ford is the Director of Assurance Services, and Mr. Bill Germal is on the Technical National Team and specializes in working with employee benefit groups. Ms. Caputo commented that she is the firm-wide leader in its employee benefit plan niche.

Mr. Oliver stated that his role as Unassociated Partner will be to conduct the final quality control review as someone who has not been active in the audit. He will review the engagement and consult with Ms. Caputo on the planning to make sure that the planning is fully completed and approved before the engagement begins. Mr. Oliver added that he will also consult on any unusual issues that may arise during the audit. During the first year Mr. Oliver will be more involved, and in the following years, Mr. Oliver's role may be less involved.

Chairman Saul then emphasized that he and his fellow Board members take the audit very seriously. He stated that because the Agency does not have a formal audit committee, he considers himself and the other Board members to be the audit committee. The Board can be reached at any time if her group needs anything. If the auditors feel they need to speak to Chairman Saul, they can reach out to Mr. Emswiler, the General Counsel, and the Board will immediately take any action the auditors feel is necessary to safeguard the Plan's assets.

Ms. Caputo and her team are spending more time with the organization on this audit since it is a new organization to them. Additionally, the audit team will be looking at the data center and the Agency's financials. Chairman Saul emphasized that Clifton Gunderson should do whatever it deems necessary to learn about the Agency and suggested that Ms. Caputo speak to the Department of Labor. He noted that the auditors report, not to the Agency's staff or Executive Director, but to the Board.

Mr. Sanchez added that Mr. Long and the Agency team are doing a fantastic job, and that the Board is very happy with the way the Agency is being managed. He commented that, even if her team comes across potential enhancements that are not within the scope of the audit, Ms. Caputo should feel comfortable sharing any potential improvements to the Agency's operations. If there is a finding outside of the scope of the audit, Clifton Gunderson will report on such a matter in the management letter.

Ms. Caputo then discussed the outline of the engagement scope. Clifton Gunderson is currently performing an audit of the Thrift Savings Fund's financial statements for the year ending December 31, 2008. This audit will include the internal control environment on the manual control side as well as the information technology controls. Clifton Gunderson will be issuing a report on any control deficiencies it finds, as well as other matters. This will not be an audit opinion on internal controls but will be a document communicating items that came to Clifton Gunderson's attention during the course of the audit. Additionally, across the course of the engagements and audit, there were will be several meetings between Clifton Gunderson and the Board.

Clifton Gunderson's work will be done in accordance with auditing standards that are generally accepted in the United States. The audit will be performed in a phased approach. Ms. Caputo emphasized that communication will be key during the audit process.

At this point, Clifton Gunderson has completed the planning stage. It is focusing on internal control testing. Clifton Gunderson will be coming back to the Board after the Presidential inauguration to continue with its onsite testing. This will continue into March and final reports will come towards the end of March. Each Board member will receive a copy of the final report.

Ms. Caputo noted that her team is focusing on clarifying the risks involved with the audit and in the financial reporting process. She welcomed the Board members to alert her group to any risks that may not be evident. Chairman Saul noted that normal financial controls are an area to focus on, and also encouraged Ms. Caputo and her team to become familiar with the Agency's systems. It is important that Clifton Gunderson become familiar with the Agency's systems as the Agency is making significant systems-based changes. Ms. Caputo noted that Clifton Gunderson has a team focused on that area. Chairman Saul suggested that Clifton Gunderson attend the upcoming Board meeting at Serco.

a. Monthly Participant Activity Report

Ms. Wilder then reviewed the report on TSP statistics. See "Thrift Savings Fund Statistics" (attached). Ms. Wilder reported that the good news for the month was Plan assets were back to pre-November/October levels, and the Plan is above $200 billion.

The other piece of very positive news is that the number of Plan participants has broken the four million participant barrier. Chairman Saul noted that there has been some discussion about modifying private sector 401(k) plans but, since the TSP now has four million participants, Federal workers must like the TSP the way it is structured. Ms. Wilder agreed but noted that the Plan's participation rate dropped approximately three to four percent and dipped to levels that the Plan has not seen since 1997. However, relative to the 401(k) market, the Plan is doing well.

Chairman Saul commended the Plan for its liquidity. Participants have a very liquid option in the G Fund, and not many plans give you daily liquidity for your entire retirement. This liquidity is very important especially at a time when markets are trending down. Chairman Saul noted that he is surprised that the number of Plan loans has not skyrocketed. He noted that he understands that many people moved their money out of equities and into debt in order to protect themselves. Though, like every asset class, the Plan has experienced losses, the Plan has held up very well during a time of extreme market volatility.

Ms. Wilder noted that the Agency continues to get the message out to participants that investing should be for the long-term. The January/February Highlights, which is available on the Web, emphasizes this message of long-term investing. Mr. Sanchez noted that participants purchasing at the current low prices will be well poised when the market goes back up.

Chairman Saul again emphasized that the Plan has held up well during the recent financial upheaval and that the Plan is well constructed. Mr. Long agreed and commented that, in comparison to other similar funds, the L 2010 Fund sustained relatively minimal losses.

Mr. Duffy noted that he is cautious about talking about the economics of the marketplace but he has seen a lot of de-leveraging in the financial industry. He also commented that he has not seen a lot of money coming back into the market. However, he noted that it is very early in the year and that the volumes at the Chicago Mercantile Exchange are down but not significantly. Mr. Duffy feels that people are waiting to see what happens during the first 30-60 days of the new Presidential administration before making a decision on how to proceed.

Mr. Duffy believes that the Plan has functioned well. He credits this to the diversification of the portfolio and the participants who have moved some of their riskier assets into Government securities. Chairman Saul noted that, as of December 31st, 58 percent of assets are in the G or the F Fund and 42 percent in equities. Mr. Duffy noted that this composition is completely inverted from most 401(k) plans which are mostly 60 percent equities and 40 percent in cash. Chairman Saul noted that he knows of no fund where people can move so quickly. Mr. Long noted that other plans allow movements into money markets but they do not have the G Fund. Chairman Saul and Mr. Duffy noted that the fact that the Plan is an all-index fund allows for greater liquidity at a time like this. Chairman Saul commended Congress for successfully constructing the Plan and believes its success is another reason why the Plan should not add complexity.

b. Gross and Net Expenses Report

Mr. Long then discussed Mr. Petrick's report entitled "Gross and Net Expenses 2004-2008" (attached). In 2008, the cost of running the TSP was 4.3 basis points. The net impact to participants is 1.8 basis points which is up four-tenths of one basis point over last year - a miniscule amount.

Chairman Saul wanted to know what the costs would have been if the upgraded system was eliminated from the analysis. Mr. Long did not have those figures but noted that the Agency spent a substantial amount of money on the systems upgrade. Mr. Long emphasized, first, that, even with a substantial investment in hardware and related services, the

Agency's expenses are very low. Second, Mr. Long commented that it is important to recognize that there is an element of the Agency's expenses which it does not control. If forfeitures decrease substantially in the future, participants will see an increase in their fees.

c. Legislative Report

Mr. Trabucco noted that since the last Board meeting, it is a new year and a new Congress-the 111th Congress. Though the new Congress is still going through its organizational stages, it is stepping-out rather briskly to address the legislative issues which were outstanding at the end of the 110th Congress.

Recall that the Board members sent Congress a proposal requesting the authority for automatic enrollment and to set the L-Fund as the default fund. The House passed this legislation, and added three provisions – the Roth authorization, the mutual fund window, and immediate matching contributions for new FERS employees. The Agency was agreeable to these changes but still had background work and research outstanding. The Agency wanted to survey its participants to know if there was sufficient support for these features to justify the expense and resources required to put them together. Mr. Trabucco noted that the Agency has some preliminary information from the participant survey, and Ms. Wilder will brief the Board when that information is final.

Mr. Trabucco noted that, as the Agency has always done, he continues to keep the Employee Thrift Advisory Council (ETAC) apprised of the legislative developments. ETAC would like to have a meeting to discuss the legislative proposals and the new Congress. Mr. Trabucco added that ETAC Chairman James Sauber enjoyed the last ETAC/Board joint meeting and envisioned such a meeting this summer.

Chairman Saul suggested that waiting until the summer was too long to wait to have the joint ETAC/Board meeting. Mr. Trabucco noted that Chairman Sauber had surveyed his members and that ETAC was planning to meet on February 4th to review the five legislative issues as well as the surviving spouse TSP account proposal which was brought forward by ETAC members and the administrative subpoena proposal which will help the Agency better protect Plan assets. After the ETAC members work through these items, they will report back to the Board at the February Board meeting. Chairman Saul suggested that the

Board hold a joint meeting with ETAC on February 4th or 5th. Mr. Trabucco recommended against that idea as Chairman Sauber stated that he preferred an initial, ETAC-only working session.

Chairman Saul and Mr. Sanchez suggested that the joint Board/ETAC meeting should be sooner rather than later. The next Board meeting is in Reston, Virginia on February 17th. Chairman Saul asked if the ETAC members would want to meet in Reston or at the Agency on that date. Mr. Long suggested that the Board members should talk to Chairman Sauber to determine what he wants to do. Mr. Whiting also noted that the Board valued the joint ETAC/Board meeting and would like to have another such meeting as soon as possible. Chairman Saul noted that he believes the joint meeting should be done in February or March at the latest. Mr. Trabucco will discuss the joint meeting with ETAC and noted that having an agreed-upon plan is a good idea. It will be important to go to the Hill with items recommended by the employee unions and the Board to show a unified force.

Mr. Trabucco noted that he has advised Hill staff of the emerging schedule and how the Agency intends to deal with it. Though they are still organizing, they are fully aware of the Agency's agenda.

Chairman Saul noted that, with a Democratic Congress and Democratic President, and since the majority of ETAC members are affiliated with unions, it will be important to have the support of the unions when going to Congress. Mr. Trabucco acknowledged that the group still has some work to do during the February 4th meeting and that he will extend the Board's invite to hold an earlier joint meeting. Chairman Saul noted that he would be willing to attend the February ETAC meeting if Chairman Sauber thought it would be beneficial. The agenda for the February 4th ETAC meeting will include last year's legislative proposals, the survey results, and Ennis Knupp's analysis of a recent proposal from the REIT industry. Mr. Trabucco noted that the goal of the meeting is to make sure that people are up-to-date on the facts. For example, the Agency made a special outreach to the Department of Defense which expressed concerns regarding automatic enrollment. In sum, in consultation with Congress and the unions, the Agency is taking the first step in what is going to be a one- or two-year effort to get the legislative proposals into a form that works best to get them completed.

Mr. Sanchez noted that he would like to see Mr. Long hold another meeting at the Pentagon this year. He also asked Mr. Trabucco to review new Hill assignments which impact the Agency. In particular, Mr. Sanchez mentioned that Senator Voinovich is retiring. Mr. Trabucco did talk to a member of Senator Voinovich's staff, and Senator Voinovich will remain in office for two more years and, during that time, wants to be actively engaged on TSP issues.

There have not been any significant changes in the committees which have jurisdiction over the Agency. Mr. Trabucco did note that the Committee on Homeland Security and Governmental Affairs has more positions which it must fill than most other committees. It is very busy at the beginning of Congress because a lot of appointments have to be made and, from the get-go, it will be a very active committee under Senator Lieberman. Mr. Trabucco closed by stating that he will get back to the Board members regarding the joint ETAC/Board meeting.

d. Office of Participant Services Report

Mr. Long explained that, because you must pay taxes on money that has been tax-deferred for a long period of time, if you are 70 1/2 years old or in the year you turn 70 1/2, you are required to take minimum distributions from your TSP account. This requirement means that people in this age group are required to take money out of their retirement plans in a year when assets are down substantially. As a result, on December 23rd, President Bush signed the Worker Retiree and Employer Recovery Act. Because of the holidays, the Agency has had limited time to work through and digest this new law. Mr. Long commended Ms. Moran and her team for working through the complications of this change.

Ms. Moran explained that even prior to President Bush signing the Worker Retiree and Employer Recovery Act into law, the Agency was receiving phone calls and letters from participants. In implementing this Act, there are special challenges for the Agency. Unlike IRAs or some 401(k) plans that make annual distributions only at the end of the year, many TSP participants take their money out of the Plan in monthly payments. Additionally, the TSP's governing statute requires participants to begin withdrawals when they are age 70 and 1/2. Ms. Moran noted that there is the issue of the law saying that 2009 RMDs are not required and the TSP's governing statute requiring withdrawals.

Ms. Moran emphasized that P.L 110-458 has nothing to do with 2008 distributions. Participants must still receive those required minimum distributions. The Agency is working with the Serco and SunGard contractors to change the way the Agency processes payments, and, basically, the system is ignoring the RMD component of a withdrawal. For those participants who are already taking monthly payments, the Agency is allowing them to have a one-time special opportunity to change their monthly payment amount to an amount not less than \$25. If a participant is in the middle of a stream of monthly payments based on life expectancy, and, ordinarily that person would get \$275 per month, that person can ask the Agency to reduce the payment amount down to \$25. At the end of the year, the \$25 will either continue or the Agency will give the participant the opportunity to increase the amount under the normal rules. This allows the Agency to be in compliance with both P.L. 110-458 and its governing statute.

Ms. Moran commended the folks who are working on the implementing those changes and noted that she hopes they will be completed by the end of the following week. The processing is being done manually. For problem forms, the processing units are contacting the call centers, and the call centers are contacting the participants. At this point, the Agency has received 250 forms requesting changes in payment, and it expects that this number will spike later in January and into February and then trail-off across the year. At the end of year there may be some changes in order to help participants switch back if they want to.

From a communications perspective, the Agency has 75,000 participants who are 70 and 1/2 or older and potentially affected by the law. Ms. Moran's group put a notice on the Agency's Web site and, with the regular end-of-year notice, sent an insert to those affected that states that the law has changed and that that a special mailing will be mailed out later once the details have been worked out. Ms. Moran shared copies of the letter and special tax notice but noted that they are still in pre-production and have not gone into final production review. Mr. Long signed the letter only this morning. She stated that the notice will be on the Web site that afternoon or the following day and the letter is going into the mail late next week.

Ms. Moran added that the Agency is working on processing the required minimum distribution component of death benefits payments and court orders. Ms. Moran cautioned that the Agency does not want to make substantive changes because, right now, the law only applies to 2009. Her team is trying to keep the changes very simple, and the contractors came up with an elegant solution. Ms. Moran also noted that the National Active and Retired Federal Employee Association, an ETAC member, has demonstrated an interest in the required minimum distribution change. Mr. Trabucco is going to meet with them to give them copies of materials.

Ms. Moran noted that the notice regarding the RMD change will be on the Web site. The letter, referring participants to the tax notice, is being sent out separately. The Agency is not mailing out the tax notice with the letter.

Ms. Moran explained that, because the change ignores the RMD component, a withdrawal taken by somebody who is 70 and 1/2 this year will look exactly the same as someone who is 65. The tax rules are actually simpler than when the RMD component was in place. For example, under the old rules, if someone who is 70 and 1/2 wants to roll his/her TSP account to an IRA, that person is required to receive a required minimum distribution. The portion of that person's account that represents his/her RMD must be paid to him/her in cash. With the 2009 RMD hiatus, this person can roll the entire account over.

Mr. Long stated that the change has been made and that the Agency tried to minimize the systems' impact. This was a significant effort to pull together in a few weeks. The rules regarding this change were difficult to decipher. Mr. Sanchez emphasized that the individuals who are impacted by this, 75,000 participants, should get notice of the impact of the change. Mr. Sanchez then commended the Agency on its good work.

3. Quarterly Reports.

a. Investment Policy Review

Ms. Ray reviewed the January 8, 2009 memorandum (attached), entitled "December 2008 Performance Review - G, F, C, S, I, and L Funds." For the month of December, the Small-Mid Cap Fund had a tracking error of 38 basis points and, for the year, 67 basis points. In December, the International Fund had a tracking error of 163 basis points which is due to a fair value adjustment on December 31st. That will cause the year-to-date numbers to be off since we're starting a higher level on January 1st.

Year-to-date, there is a tracking error of 110 basis points in the International Fund, and this is a result of the tax effect for the index and the fair value adjustment. The Fixed Income Fund had a tracking error of 17 basis points for the year. This is a result of sampling.

The trading costs in the I Fund were high again this month and were 34 basis points. This is because the I Fund's order is received when the markets are closed, and hours pass before it can be executed. The volatility in the markets is affecting trading costs. Overall for the year, trading costs are relatively low.

Ms. Ray noted that the G Fund will pay 2.13 percent in January. The yield curve continues to flatten. Just a few months ago, the ten-year rate was at 3.95, and it was 2.21 at the end of the year. The 30-year bond was at 4.37, and, by year end, it fell all the way to 2.68. Chairman Saul commented that the G Fund's risk-free rate is a good deal for participants.

December 1st was the worst first day of any December, but stocks rebounded throughout the month. The S and C Funds were up for the first time since August. The I Fund was actually up for the first time since May. After being up 3.3 percent in November, the F Fund was up 3.73 percent in December. Two good months for the F Fund.

In December, credit conditions improved. The corporate bonds part of the index was up 6.8 percent and long corporates were up 14 percent. That caused the big drop in the 30-year rate, in addition to the fact that credit was improving. Commercial mortgage-backed securities were up 17 percent but asset-backed securities remained weak and fell 0.6 percent for the month.

Year-to-date, the C, S and I Funds were only positive for four months in 2008, and, had negative returns for the year. Despite returning eight percent in December, due to the Dollar Index, the I Fund fell 42 percent across the year. It is the first time that the I Fund underperformed the S Fund since 2003, and the first time it under-performed the C Fund since 2001. Strong S and I Fund returns pulled up the L Funds, and all L Funds, except the L Income Fund, outperformed the C Fund for the month of December. Year-to-date, the L Funds all outperformed the C, S and I Funds.

After this discussion, the members 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
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> 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
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> WHEREAS the Board members are satisfied with the investment performance and investment policies of these Funds;
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> 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.

Ms. Ray said that an independent audit of Barclays' proxy votes showed no exceptions during the third quarter.

Overall, the markets were calmer in December and there was a sharp decline in interfund transfer activity. Both the L Fund balances and the number of participants investing in the L Funds increased for the first time since September. Mr. Long emphasized that it is significant that the Plan is starting to see participants trickle back into the L Funds.

b. Vendor Financial Reports

Mr. Petrick asked if the Board members had any questions regarding the January 8, 2009 memorandum (attached) entitled "Quarterly Financial Assessment of TSP's Primary Vendors - January 2009." This is an off-quarter review, and the next time the Board reviews vendor financials, it will go through each of the companies individually. Mr. Petrick noted that, because Active Network is a closely-held company, the Board will review its report in the closed session. The Board had no questions.

c. MetLife Annuity Report

Mr. Petrick then reviewed the January 5, 2009 memorandum (attached) entitled "Protections Provided by State Insurance Guaranty Funds to TSP Participant Purchasing Annuities." At the last Board meeting, Mr. Whiting requested a memorandum regarding the operation of the state insurance guaranty funds which provide backup to the annuities that the Agency purchases from MetLife for retired TSP participants. Eligible participants can use all or part of their account to purchase an annuity, and the Agency's current annuity provider is MetLife.

The state guaranty funds are set-up by law in every state, the District of Columbia and Puerto Rico. Each insurance company licensed to do business in a state must contribute to that state's guaranty fund in the various amounts established by the laws of that particular state. The state guaranty fund then provides a backup should an insurance company doing business in that state fail. The amount of coverage varies from state to state. The typical coverage provided is $100,000. Chairman Saul asked what the average amount of a TSP participant's annuity is and whether $100,000 would cover most people. Approximately 4,700 people have purchased MetLife annuities. Mr. Petrick believes that most annuities exceed $100,000. Currently the annuity program is lightly-used because CSRS retirees have a complete defined benefit annuity. Mr. Whiting also expressed an interest in knowing the net present value of the average annuity. Ms. Moran noted that that figure is likely a MetLife figure. Mr. Petrick and Ms. Moran are going to look more into this issue.

Mr. Petrick clarified the coverage amount is based on the state in which a person resides - not where the company is incorporated. Mr. Petrick also emphasized that his group could not find any record in the last several years where a life insurance or annuity provider had failed. The failures which people have heard about have been casualty insurance companies. The life insurance industry appears relatively sound.

Additionally, the Agency limits competition to those vendors having the highest ratings and the highest amount of assets. This is one reason why MetLife has been a very strong competitor in each procurement process. As added protection, the Agency also requires the insurance company to be licensed to do business in each of the 50 states and the District of Columbia. This means that the protections of the state guaranty funds are available as an added-guarantee - not a 100% guarantee. Mr. Whiting asked whether MetLife and its competitors are licensed to do business in U.S. territories such Puerto Rico and Guam. The team agreed to look at this as part of the next RFP process.

4. <u>Audit of Computer Access and Technical Security Controls</u>.

Mr. Long noted that in Fiscal Year 2007, the Department of Labor performed an audit on secure access and technical controls, and the Department of Labor performed a follow-up to this audit in 2008. This audit and report were provided to Board members. These two reports represent the final reports from last year's work and will be discussed by the Department of Labor in February. Mr. Petrick noted that this was very IT-intensive program and then turned the conversation over to Mr. Hagerty.

Mr. Hagerty noted that he is very pleased with the progress that his team has made and continues to make in the IT security area. Mr. Hagerty introduced Mr. Troy Poppe, the IT Security Program Manager. Mr. Poppe has significant expertise from both the private and public sector and is doing exceptional work under Mr. Roy Friend, the Deputy CIO for Operations. Mr. Poppe is working to go well-beyond the audit findings and stay ahead of the curve on challenges and IT security initiatives that continue to come downstream.

The Agency had two angles of attack as far as IT security. There is a strategic angle which includes items encompassed in the data center modernization. Many of the audit findings reference server configuration and other related issues, and these will be handled by the modernization initiative during which the Agency will move from the old server infrastructure to the new virtualized server infrastructure. The audit finings are excellent fodder for the Agency to take forward and establish configuration and security settings. This will include, among other items, encryption for both data at rest and data in motion.

Mr. Hagerty's group has taken on a number of more tactical internal responsibilities. These include emulating the auditors and trying to attack the Agency from the inside and outside. Using the same tools that the auditors use, the Agency runs quarterly scans against the system. The Agency also has a very comprehensive security task program in place. The Agency has Microsoft II patches which come out every week.

The Agency made significant procurements at the end of fiscal year 2008. These purchases include software that will support not only the TSP mainframe environment but also the new Web site initiative. Mr. Hagerty commented that, in the developing the new Web site, the Agency will be developing security and logging-in procedures similar to those used by some of the Agency's contemporaries. Mr. Hagerty noted that the Agency will hold-off on these developments and related investments in time and resources until the Agency is working in its new Web environment. The new features will be rolled into the new capabilities. Mr. Hagerty noted that from an IT and operations perspective, the Agency has gone to great lengths to mitigate any near term challenges.

Another audit finding which has been improved is the Agency's continuity of operations. The Agency has infrastructure-related continuity of operations plans in place, and has a primary and backup data center. Mr. Hagerty noted that his team is starting to shift its focus towards the business unit capabilities in the accounting group. For example, if there was a crisis, it is important to make sure that the accountants can do their jobs and make investments.

Mr. Hagerty closed his report by noting that Ms. Susan Smith had made substantial headway over the past years in the area of configuration management QA. She has put a great program in place on the software application side. This program has controls and is auditable. Mr. Roy Friend is doing the same on the systems side. As Mr. Hagerty's team introduces changes to the system's controls and configurations, they go through a tracking and approval process. These changes are auditable, trackable, and Mr. Hagerty's team is able to introduce quality assurance, configuration management and some discipline into the process.

Mr. Petrick explained that the date on the report is based upon when the Department of Labor begins its work. The receipt of the final report was January 7th.

Chairman Saul noted that the report lists 25 vulnerabilities, down from 67 and asked what the 25 vulnerabilities are like now. Mr. Hagerty noted that the number would be down some because of longer-term fixes to the Pittsburgh site which are associated with the data center modernization. Mr. Petrick noted that there are two parts of the report - one is for closed session and one is for open. The report listing particular vulnerabilities is for the closed session.

Chairman Saul then asked Mr. Hagerty to discuss the upcoming data center move. Mr. Hagerty noted that they were able to get contracts finalized for the new site. The cage is built and the power is on. New equipment is on the deck at the new facility. Over the weekend of February 14th, President's Day weekend, the Agency will be moving a mainframe—storage, area network and servers. On Monday, February 16th, the systems should be operational. Mr. Hagerty's team needs the three-day weekend because there are any number of risks associated with moving sensitive equipment.

If something were to happen during the move, Mr. Hagerty's team has a series of go/no-go decisions, and, if there is a failure, the equipment will be brought back and put back in place. If there was a real problem, Pittsburgh would be used as a backup site, and there will be other equipment on standby on the floor. The mainframes purchased at the end of fiscal year 2007 are in the current, primary backup data center. The primary mainframe will be relocated. The Pittsburgh site could be up and running in six hours, and the Web site would be up and running in 10 to 12 hours. Mr. Hagerty noted the data center move and the broader modernization program are linked to improving the Agency's security and his group's intent is to complete this process in 2009, but some elements may carry over into 2010.

Mr. Long noted that the intent of the February meeting is to allow the Board members to visit Serco headquarters and then visit the new data center. Chairman Saul noted that if Mr.

Hagerty's team believes that they have their hands' full during the move, the Board can visit the new site at another time.

4. 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 confidential financial information and security.

At 11:20 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 11:20 a.m.

MOTION: That this meeting be adjourned.

Thomas K. Emswiler
Secretary

Attachments

1. Thrift Savings Fund Statistics
2. Gross and Net Expenses 2004-2008
3. December 2008 Performance Review - G, F, C, S, I, and L Funds
4. Quarterly Financial Assessment of TSP's Primary Vendors - January 2009
5. Protections Provided by State Insurance Guaranty Funds to TSP Participant Purchasing Annuities