



MINUTES OF THE MEETING OF THE BOARD MEMBERS  
AND THE EMPLOYEE THRIFT ADVISORY COUNCIL

May 21, 2024

Michael F. Gerber, Chair of the Federal Retirement Thrift Investment Board, convened a meeting of the Board members on May 21, 2024, at 10:00 a.m., Eastern Daylight Time. The meeting was held at the Board's offices at 77 K Street, NE and was open to the public via teleconference. In attendance were Dana K. Bilyeu of Oregon, member (by telephone); Leona M. Bridges of California, member; Stacie Olivares of California, member (by telephone); Ravindra Deo, Executive Director; Dharmesh Vashee, General Counsel and Secretary; Suzanne Tosini, Chief Operating Officer and Deputy Executive Director; Kimberly Weaver, Director, Office of External Affairs; Gisile Goethe, Director, Office of Resource Management; James Courtney, Director, Office of Participant Experience; Sean McCaffrey, Chief Investment Officer; Vijay Desai, Chief Information Officer; Thomas Brandt, Chief Risk Officer; and Trevor Williams, Chief Financial Officer.

In attendance for the Employee Thrift Advisory Council were Acting Chair Althea Sprosta, Federally Employed Women; Craig Carter, Federal Managers Association (by telephone); Neil Doherty, Senior Executives Association (by telephone); Ron Garner, Uniformed Services; John Hatton, National Active and Retired Federal Employees; Daniel Heins, United Postmasters and Managers of the United States (by telephone); Kori Blalock Keller, National Association of Letter Carriers (by telephone); Michael Macho, American Postal Workers Union (by telephone); Charles (Chuck) Mulidore, National Association of Postal Supervisors; Travis Reither, American Federation of Government Employees; Dave Stamey, National Federation of Federal Employees (by telephone); and Matt Sowards, National Treasury Employees Union (by telephone).

Welcome and Introductions.

Chair Gerber called to order the monthly meeting of the Federal Retirement Thrift Investment Board (FRTIB or Agency) at 10:00 a.m.

Chair Gerber welcomed the members of the Employee Thrift Advisory Council (ETAC). Acting Chair Sprosta subsequently called to order the ETAC meeting. Chair Gerber welcomed everyone present to the joint FRTIB/ETAC meeting.

1. Approval of the Minutes of the April 23, 2024, Board Meeting and October 20, 2023, ETAC Meeting.

Chair Gerber entertained a motion for approval of the minutes of the April 23, 2024, Board meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the Board meeting held on April 23, 2024, be

approved.

Acting Chair Sprosta entertained a motion for approval of the minutes of the October 20, 2023, ETAC meeting. The following motion was made, seconded, and adopted without objection:

MOTION: That the minutes of the ETAC meeting held on October 20, 2023, be approved.

See “ETAC Meeting Minutes” (attached).

Mr. Deo gave opening remarks and provided a brief summary of the agenda.

2. Monthly Reports.

a. Participant Activity Report

Mr. Courtney reviewed the monthly Participant Activity Report. See “Participant Activity Report April 2024” (attached). The TSP continues to see strong Roth participation. Nearly 2.6 million TSP participants have a Roth balance; uniformed services members account for about 60 percent of the accounts with Roth balance. Mr. Courtney also noted that 21 percent of logins to My Account in April were through the mobile app, which represents a 40 percent increase from six months ago, likely due to the introduction of biometrics as a means of authentication.

b. Investment Review

Mr. McCaffrey reviewed fund performance for the month of April. See “April 2024 Investment Program Review” (attached). BlackRock’s and State Street’s performance for the F Fund exceeded the fixed income index’s return by six basis points and four basis points, respectively, primarily due to pricing differences on the last trading day of March 2024. C and S Fund performance was in line with the funds’ respective indices for both BlackRock and State Street.

Mr. McCaffrey presented the I Fund’s monthly performance separately because it is in the process of transitioning to the MSCI ACWI IMI ex USA ex China ex Hong Kong Index. BlackRock and State Street have independently coordinated with MSCI to develop transitional benchmarks. BlackRock’s and State Street’s performance for the I Fund lagged the applicable International Index by 61 and 35 basis points, respectively, primarily due to fair value pricing.

Mr. McCaffrey then provided a commentary on the April markets. Although the month began with news of stronger-than-expected job gains, concerns about inflation seemed to remain at the forefront of investors’ minds. A late month report showing unexpectedly weak economic growth sparked additional pessimism among some investors. Longer-term interest rates rose, contributing to a loss for the F Fund. The C and S Funds posted losses. The I Fund also fell, thanks in part to a stronger U.S.

dollar. All L Funds finished lower.

Regarding year-to-date performance, BlackRock's and State Street's performance for the F Fund was ahead of the Fixed Income Index's return by ten and eight basis points, respectively. Both managers' performance for the C and S Funds was in line with their respective indices, and both lagged the applicable International Index by 42 basis points, primarily due to fair value pricing.

As of the close of markets on May 20th, May's month-to-date returns are positive. The C Fund is ahead 5.53 percent; the S Fund 6.08 percent; the I Fund 5.67 percent; the F Fund 1.83 percent; and the G Fund 0.26 percent.

Mr. McCaffrey noted that participant investment allocations are approaching 25 percent in the L Funds on a market value basis, which is partly attributable to their status as the Plan's default investment option. A growing number of participants are investing in the L 2025, L 2035, L 2045, L 2055, L 2060, and L 2065 Funds. The most rapidly growing L Funds by number of participant accounts are the longest dated funds because they best suit the age profiles of new uniformed services members. The overall number of accounts invested in the L Funds increased by approximately 18,000 in April, with the largest increases in the L 2055, L 2060, and L 2065 Funds. Automatic enrollment of new participants is the primary driver of growth in L Fund participation; 54 percent of participant accounts now own at least one L Fund.

Mr. McCaffrey concluded his presentation by noting that interfund transfers (IFTs) were largely subdued, with modest net negative IFTs for the stock funds in aggregate while the G Fund experienced offsetting net positive IFTs. On a percentage basis, approximately 2.2 percent of participants moved assets between funds in April, close to the long run median of two percent.

c. Legislative Update

Ms. Weaver reported there were no legislative events relevant to the Thrift Savings Plan (TSP) or the Agency.

3. Quarterly Metrics Report.

Mr. Brandt provided a report on key performance indicator results for the second quarter of Fiscal Year 2024. See "FY24 Q2 Metrics Report" (attached). Mr. Brandt stated the Agency is currently meeting its metrics and is on track with all quarterly measures. Chair Gerber thanked Mr. Brandt for the report and noted the Agency will stay vigilant.

4. L Fund Asset Allocation Review.

Mr. Mike Jerue, Deputy Director of the Office of Investments (OI), provided an overview of the 2024 Lifecycle Funds asset allocation review. See "2024 L Funds

Asset Allocation Review” (attached).

Mr. Jerue began by describing the role of the L Funds in generating retirement income. The objective of the L Funds is to provide long-term investment strategies such that TSP assets, in conjunction with Social Security and a defined benefit, can reliably replace a substantial portion of participants’ final pre-retirement income. OI aims for 70 to 80 percent overall replacement rate to be generated by the TSP, the defined benefit, and Social Security.

OI periodically reviews the L Funds to determine if there are ways to increase the expected replacement rate without taking on too much risk. Mr. Jerue stated that the 2024 L Fund study did not identify any changes that would generate meaningful improvement in expected outcomes for participants and beneficiaries. Therefore, OI recommended to Mr. Deo that the current designs of the L Funds remain in place, and Mr. Deo concurred with that recommendation.

Mr. Jerue gave an overview of the 2024 L Fund study. Aon Investments (Aon) served as the consultant for the L Funds study. First, Aon analyzed participant demographics and behavior to develop profiles of average L Fund investors. Second, Aon developed capital markets assumptions, including expected returns and volatilities for various asset classes and expected rates of interest and inflation. Finally, Aon considered potential changes to the glide path of the L Funds. A glide path is the transition that target date funds undergo from a more aggressive allocation of mostly stocks at the beginning of a fund’s life to a more conservative allocation to mostly fixed income at the end of the fund’s life.

Mr. Jerue summarized a key finding of the 2018 L Funds asset allocation study. That study found that TSP participants of all ages would benefit from a more aggressive stance – more of C, S, and I Funds, and less of G and F Funds. However, to minimize disruption, the Agency implemented a “level off” strategy wherein there would be a long-term transition increasing the allocation to equities. The transition will be complete in 2032.

Mr. Jerue introduced Aon’s team: Russ Ivinjack, Global Chief Investment Officer; Raneen Jalajel, Associate Partner; and Saif Choudhury (by telephone), Senior Investment Consultant. Mr. Ivinjack stated that Aon looked at the glide path risk level and the investment structure and ran thousands of simulations. After reviewing the results, Aon believes that the L Funds are on the right path going forward without change. The different scenarios’ results were within one percentage point of the best and worst outcomes. As a result, there is no compelling reason to make any modifications to the L Funds’ glide paths.

Ms. Jalajel discussed the changes to the L Funds’ glide paths implemented after the 2018 L Fund study. The L 2065, L 2060 and L 2055 Funds are on the ultimate glide path with the starting equity allocation at 99 percent while the remaining L Funds continue to transition towards the ultimate glide path. Ms. Jalajel next discussed that Aon compared expected outcomes under the current glide path to those under ten alternative

glide paths, or scenarios, to evaluate whether any changes to the L Funds' design would yield improvements. Ms. Jalajel also discussed the capital market assumptions used in the study. Compared to 2022, the majority of asset classes have a higher expected return. In response to a question from Mr. Hatton, Ms. Jalajel stated that the expected returns are nominal, meaning they include expected inflation.

Ms. Jalajel then discussed Aon's efficient frontier analysis, which is used to determine if there are potential improvements to underlying investment structures. Aon tested an unconstrained efficient frontier using the five TSP funds and a constrained efficient frontier, which limits allocations to small- and mid-cap and international equity. Aon's analysis of the efficient frontier affirms the appropriateness of the underlying investment structure.

Next, Mr. Choudhury discussed demographic profiles and assumptions for non-investment components. The Agency collected model participant data for each of the nine L Funds. Aon used the L 2040 Fund in its presentation for simplicity.

In response to a question from Mr. Garner, Mr. Jerue explained that the profiles of the model participants do not reflect the characteristics of uniformed services participants because members of the uniformed services tend to have relatively short careers. Most of them enter service and then separate from service before age 30. As such, it would be challenging to model them with such a short tenure of participation. In contrast, the median age for a new FERS employee is about 36 years of age, and the majority of FERS participants stay employed with the federal government until age 60. With the latter, it can be assumed after retirement, the FERS participants will begin receiving the three legs of the three-legged stool of Social Security, the defined pension benefit, and the TSP. The same assumption cannot be made for the uniformed services participants. Mr. Jerue noted that even though the characteristics of uniformed services participants are not accounted for in the model, the youngest members of the uniformed services are placed in L Funds with equity allocations of 99 percent, which are suitable for anyone under 30, whether they are uniformed services or not.

Mr. Choudhury explained that Aon, using the various assumptions and model participant profiles, created 5,000 forecasts of account balances at retirement with the income replacement ratio as the primary metric. Using the L 2040 Fund as an example, Mr. Choudhury discussed several scenarios and their various risk and return tradeoffs. Mr. Choudhury specifically discussed the scenarios of moving 100 percent of the L Funds' fixed income allocation to the G Fund versus moving it to the F Fund. While some results showed a preference for the F Fund, Mr. Choudhury noted that the G and F Funds are expected to behave very differently under different economic scenarios. Also, quantitative analysis is only one component of the holistic analysis that Aon performs when it reviews asset allocation.

Mr. Choudhury presented forecasted account balances expressed in dollars and forecasted replacement ratios of a model L 2040 participant under the various scenarios and noted there is little variance across the different scenarios. The current glide path resides in the middle of the results. Mr. Choudhury then presented an

analysis of the likelihood of a negative return in the two years leading up to the L 2040 model participant's first withdrawal under the different scenarios and found a 24 percent chance of a negative return over that two-year period. However, the likelihood of more severe negative returns was significantly lower.

In response to a question from Mr. Hatton, Mr. Choudhury explained a 100 percent allocation to the F Fund for the L Funds' fixed income performs better in the models than a 100 percent allocation to the G Fund for a couple of reasons. First, the F Fund performs better due to the additional expected return from credit spreads. Also, the F Fund experiences returns from yield as well as price changes whereas the G Fund is affected primarily by changes in yield. Mr. Deo then gave an example that illustrated how a change in monetary policy in response to a decline in equity markets could benefit the F Fund but hamper the G Fund. Mr. Deo also referred to Aon's quantitative analysis to explain that the inherent uncertainty in future returns outweighs the potential impact of changes in the relative weights of the G and F Funds, which undermines the argument for making such changes.

Mr. Choudhury discussed the distinction between a "to" versus "through" glide path. A "to" glide path reaches its final level of asset allocation at age 63, the first withdrawal age; a "through" glide path would continue to de-risk after age 63. Mr. Choudhury emphasized that the level of risk across the age spectrum is more important than level of risk at one specific age (i.e., the age of first withdrawal). In conclusion, Aon recommended that the TSP continue with its current plan of transitioning to higher equity allocations, as decided in 2018.

Mr. Jerue thanked Aon and reiterated that OI reviewed Aon's analysis and recommended to Mr. Deo that the current asset allocation remain in place. Mr. Deo concurred with that recommendation.

Mr. Jerue also announced the introduction of the L 2070 Fund in July 2024 and the L 2075 Fund in July 2025. In addition, the L 2025 Fund will be retired and rolled into the L Income Fund next summer.

## 5. OPE Annual Presentation.

Mr. Courtney presented the Office of Participant Experience (OPE) annual report. See "Office of Participant Experience Annual Report" (attached). OPE is organized into three divisions plus a front office that provides administrative, budget, and contract support. The first division is Relationship Building, which is the liaison between the agencies and services and the recordkeeper. This division includes a training team, which teaches TSP-related classes. The second division is Quality Management, which works to ensure the participant experience is in line with Agency regulations, policies, and the high contractual standards set for the recordkeeper. The third division is Content and Creation, which crafts TSP messaging across channels.

Mr. Courtney provided recent examples of OPE's accomplishments,

including implementing the removal of the 30-day wait between withdrawals and updating the TSP mobile app with biometrics. Mr. Courtney, along with Mr. Tanner Nohe, demonstrated the ease and speed of using biometrics to access the mobile app. Mr. Courtney also discussed changes made to the website and the addition of an annuity calculator on the public side of tsp.gov.

He continued by highlighting that the TSP has experienced a record number of rollovers into the Plan, between 5,000 and 6,000 per month, from January 2024 through April 2024, due in part to the concierge roll-in services. In response to a question from Chair Gerber, Mr. Courtney stated that the concierge service has been in place since June 2022.

In response to a question from Mr. Hatton, Ms. Weaver explained that the industry generally uses paper checks rather than electronic or wire transfers for rollovers, but the Agency has been in touch with the Department of Treasury about electronic rollover payments, although no changes are imminent.

Mr. Courtney next demonstrated OPE's collaboration with the Agency's Chief Scientific Advisor, Elizabeth Perry, on targeted outreach to TSP participants aged 50 to 69. These emails had strong open rates, as well as useful feedback OPE is using for targeted outreach to younger participants. Participants are also surveyed after interactions with the ThriftLine or My Account, and nine out of ten participants are satisfied with their interactions with the TSP. Separately, the Office of Planning and Risk is in the process of sending out its annual participant survey. To encourage survey participation by uniformed services participants, the Agency worked with American Forces Network on a public service announcement.

Mr. Courtney then discussed SECURE 2.0. In January 2026, catch-up contributions for some high-income participants will be required to be Roth. OPE is also researching the feasibility of Roth in-plan conversions, which would allow participants to convert their traditional, pre-tax TSP assets to Roth. Mr. Courtney discussed the benefits and the tax consequences of such conversions.

Ms. Weaver then partially read a comment received by the ETAC comment box from a TSP participant. The participant encouraged the Agency to permit Roth in-plan conversions.

6. Adjourn.

Whereupon, there being no further business, the following motion was made, seconded, and adopted without objection, and Acting Chair Sprosta adjourned the meeting for ETAC at 11:37 a.m.

MOTION: That this meeting be adjourned.

On a vote taken by the Chair Gerber, the Board members closed the meeting at 11:38 a.m. for executive session.

At 12:30 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 Chair Gerber adjourned the meeting at 12:30 p.m.

MOTION: That this meeting be adjourned.

---

Dharmesh Vashee  
General Counsel and Secretary

#### Attachments

1. ETAC Meeting Minutes
2. Participant Activity Report April 2024
3. April 2024 Investment Program Review
4. FY24 Q2 Metrics Report
5. 2024 L Funds Asset Allocation Review
6. Office of Participant Experience Annual Update