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THRIFT SAVINGS PLAN

FEDERAL RETIREMENT THRIFT INVESTMENT BOARD
77 K Street, NE Washington, DC 20002

FOIA Log No. 14-TIB-20

July 14, 2014

I am responding to your June 15, 2014 letter in which you requested records from the Federal Retirement Thrift Investment Board ("FRTIB") under the Freedom of Information Act ("FOIA"), 5 U.S.C. § 552, as amended. The request and our response are set forth below:

Request

A copy of each response to a Question for the Record (QFR) provided to Congress by the FRTIB since January 1, 2009.

Response

Your request is granted. Attached you will find all QFR's for the timeframe you've requested.

You may appeal this decision to James B. Petrick, General Counsel, Federal Retirement Thrift Investment Board, 77 K St. NE, Washington, DC 20002. Your appeal must be received within 30 days of the date of this decision. See 5 C.F.R. § 1631.10.

If you have any questions regarding your FOIA request please provide us with identification number 14-TIB-20. I can be reached at FOIAREQUEST@tsp.gov or (202) 639-4424.

Sincerely,

Amanda Haas

Amanda Haas
FOIA Officer

ANSWERS TO QUESTIONS FOR THE RECORD FROM CHAIRMAN STEPHEN F. LYNCH AND RANKING MEMBER JASON CHAFFETZ
MANAGING THE THRIFT SAVINGS PLAN TO THRIVE
HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENTAL REFORM
SUBCOMMITTEE ON THE FEDERAL WORKFORCE, POSTAL SERVICE, AND THE DISTRICT OF COLUMBIA
NOVEMBER 3, 2009

Question 1. As of September 2009, 82% of FERS employees were contributing to the TSP. The passage of the Thrift Savings Plan Enhancement Act in June is expected to increase FERS participation owing to auto-enrollment and immediate agency contributions. Given the critical role played by the TSP for FERS employees, what other steps will the Board consider going forward to increase plan participation?

Answer: As discussed in our most recent Board meeting on November 16, 2009, the Agency has developed the enclosed pamphlet that will be mailed within the next two weeks to approximately 365,000 non-contributing TSP participants. The audience is those employees who are only receiving Agency Automatic (1%) Contributions. This population grew significantly under the immediate agency contributions provision of the Thrift Savings Plan Enhancement Act, which President Barack Obama signed on June 22, 2009. This targeted communication effort will encourage these participants to avoid "leaving money on the table" in the form of Agency Matching Contributions for which they are now eligible, thanks to the new legislation. The leaflet is also designed so that it can be used in future mailings. We are also in the final stages of developing the new "Investing in the TSP" DVD which will be available to participants directly through the TSP website. Although the primary purpose of the DVD is to educate participants about the TSP and its investment options, it does encourage active participation in the TSP.

With regard to the recently enacted TSP automatic enrollment provision, as explained in my testimony to the Subcommittee, the Agency expects to implement this provision next spring. In anticipation of this implementation, the Agency is designing communication materials to explain this new benefit. In addition to updating the *Summary of the Thrift Savings Plan*, the "Welcome to the TSP" letter to new participants, and our other basic materials, we are also contemplating a booklet that agency personnel offices may use to explain the automatic enrollment program to their employees. We will also include a discussion of the program in the "new participant" DVD we plan to produce next year. We will be pleased to share these materials with the Subcommittee when they are completed. We believe that the benefits of automatic enrollment, which have already been demonstrated in the private sector, will boost TSP participation and, more importantly, strengthen the retirement security of thousands of Federal employees by automatically providing them with the benefits Congress has authorized for them.

Finally, one goal of the TSP website redesign project is to enhance its appeal to younger Federal employees and uniformed service members. By doing so, we feel that they will be more engaged and, therefore, more inclined to contribute to their own retirement. We will be rolling out a beta site this month to allow a select number of participants to "test drive" the site and provide us with their feedback. We plan to deploy the updated website next year.

Question 2. Mr. Long, given the expanded role the Board and staff will most likely have to assume in response to some of the upgrades and recently enacted legislative changes to the plan, can you articulate any possible future human resources or staffing plans that the Board may have to pursue. Also, it would be good to hear how you and the agency determine whether a particular job should be carried out directly by a Federal employee or if a position or function is better contracted out?

Answer: The Agency has been, and I believe will remain, a small agency for the foreseeable future. Every year, the Agency assesses its staffing needs in light of the challenges it faces. We build these staffing needs into each annual budget, which is submitted simultaneously to the appropriate committees of the Congress (including the Committee on Oversight and Government Reform) and the Administration. Unlike other Federal agencies, the budget approved by the TSP fiduciaries is not subject to control by OMB. During the FY 2011 budget cycle, the total number of Agency employees will increase from 89 full-time (and 7 part-time) positions in FY 2009 to 103 full-time (and 7 part-time) positions. We have already expanded our communications and Web staff by one employee in conjunction with our website redesign.

With regard to the Agency's determination as to whether a particular activity should be carried out by a Federal employee or contracted out, the Agency's history is particularly instructive. Initially, the TSP's enabling legislation (the Federal Employees' Retirement System Act or FERSA) was signed into law in the summer of 1986 with a very short deadline for implementation.

A Request for Proposals (RFP) for record keeping services (which is our major expense) was not possible because of the time needed to develop, evaluate, award, and implement such a contract. Consequently, the Department of Agriculture's National Finance Center (NFC) was tasked with creating the initial record keeping system under an interagency agreement. Essential to this determination was NFC's familiarity with government payroll systems (as a consequence of its handing the payroll functions for a number of agencies) and its responsiveness to the deadline. The NFC designed and tested a record keeping system that allowed the TSP to be up and running by April 1987, when the first contributions were received and accounts established.

Notwithstanding this necessity, the Board expressed clear recognition that while it would include government-wide protocols (such as OMB Circular A-76) in its decision process, fiduciary responsibility would be the determining factor in final decisions. As explained in an October 20, 1986, letter from then-Board Chairman Roger Mehle to then-Senate Governmental Affairs Chairman Ted Stevens, the Board made clear its intention to all parties, including the NFC, that it would issue RFPs for the record keeping system and other services. The letter stated that the fiduciaries could not "foreswear, without violating its statutory fiduciary responsibility, any legal alternative for services to the Board that may serve Federal employees [and as of 2001, members of the uniformed services] best at least cost. (Emphasis added.)

The Agency has continued to procure competitive bids with a number of contractors for various services, including our two Call Centers, forms processing and other record keeping services. These contractors have maintained the high service standards set by the Agency while keeping costs low for the Plan's participants and beneficiaries.

Additionally, as appropriate, the Agency has also used the services of other Federal agencies. For instance, the U.S. Department of the Treasury (Treasury) serves as the TSP's pay agent. The Treasury provides this service to all Federal entities free of charge. Moreover, FERSA provided both the Office of Personnel Management (OPM) and the Agency with responsibility for employee education. The Congress recognized that the retirement counselors and human resource (HR) representatives at the Federal agencies were already providing benefit information to employees concerning defined benefit pensions, health benefits, and life insurance. The Congress thus sought to use the existing infrastructure to advise employees about the new benefits available through the TSP. We note that this arrangement comports with the practice of private sector defined contribution plans, where HR departments also serve as the primary contact point for plan participants.

The arrangement has worked well. The Agency has and continues to provide comprehensive training of these agency representatives (which is free of charge, except for travel and per diem in the event that an agency requests an Agency trainer to provide training at its work site). The Agency also augments the Federal agency HR infrastructure by providing briefings about the TSP to employees at their work sites.

Going forward, the Agency will, as appropriate, develop statements of work, determine the availability of services, and issue RFPs as required. If a service can be provided at high standards and competitive pricing, the Agency will select such bids irrespective of whether the work is performed by a Federal entity or the private sector. We are bound as fiduciaries and by statute to make our decisions solely in the interest of participants and their beneficiaries.

Question 3. With the news of Blackrock's purchase of Barclays Global Investors (BGI) in the upcoming fourth quarter of 2009, will this change have any impact on the TSP's passive management investment strategy going forward?

Answer: We expect no impact from Blackrock's purchase of BGI on the TSP's passive management investment strategy going forward. Blackrock is reportedly purchasing BGI because of BGI's expertise in managing index funds. Blackrock asserts that adding this expertise to its operations will strengthen and complement its business model. As a matter of due diligence, Board members, senior staff, and the Executive Director have personally met with Blackrock executives for detailed discussions regarding our continuing expectations under our contract. Blackrock foresees no changes to BGI's operations nor to the principals who interface with the Board.

We further note that the TSP has successfully handled similar transitions in the past. The TSP's first asset manager, Wells Fargo, was purchased by Nikko Investments in the early 1990s. The successor asset manager, Wells Fargo Nikko Investments, was subsequently purchased by BGI. These events had no impact on the TSP's passive management investment strategy, and we expect the same in this instance.

Question entered into the record by Ranking Member Jason Chaffetz:

Question 1: The Thrift Savings Plan is well-known for its very low administrative costs to participants, which in 2007 were about 15 cents for every $1,000. The TSP is able to offer such low costs in part because it offers a limited range of investments, aggregated and executed centrally, to millions of participants, all of whose contributions are made through similar computerized payroll systems. However, there are other costs associated with the administration and operation of the TSP which are not expressed. For instance, the TSP's expenses are reduced by forfeitures of non-vested agency contributions and participant loan processing fees. The participant's employing agency also serves as a primary TSP contact point, while U.S. Treasury undertakes certain functions for the TSP without charge, including accounting for the government securities fund, cutting checks, and executing electronic fund transfers. Can you tell me in dollars how much of the administrative cost of the TSP is borne by the U.S. Treasury, the TSP participant's employing agency or entity, and any other entity which is not expressed in the TSP's basis-points analysis?

Answer: When I became Executive Director I learned that one of my predecessors had tried unsuccessfully to perform just such an analysis. Part of the difficulty in doing so is that various employers handle Plan expenses differently. Another difficulty is putting a value on a service which has not been competed in the marketplace. Consequently, I would respond to your question by examining the major cost centers in running a plan.

Under the FY 2010 budget recently approved by the Board, 76% of our budget will be consumed by record keeping expenses, including call centers and other operations serving participants. In my experience, these costs are routinely borne by the plan, and are the most significant administrative costs of running any plan.

A second major cost center, communications with Plan participants, is generally handled through the employer's HR activities. For the TSP, the Congress anticipated that this would be the case by establishing retirement counselors in the various employing agencies of government. 5 U.S.C. § 8350. However, we have also budgeted almost $7 million in the upcoming year for direct communications with our participants and beneficiaries.

A third major activity, collecting employee and employer contributions or loan repayments for investment or reinvestment in participant accounts, is normally handled via the employer's payroll system. This would be the case for 401(k) plans as well as the employing agencies of government.

Your question notes that the TSP charges a fee of $50 for loan processing. When the Agency initiated this fee, it contacted various 401(k) plans and learned that fees in that price range were often required. Thus, we view this as another area where TSP and 401(k) plans are very similar.

Your question also notes that the TSP's expenses are reduced by forfeitures of non-vested agency contributions and loan processing fees. Although some 401(k) plans also have forfeited funds, the existence of such forfeitures and their treatment is neither universal nor consistent in the 401(k) marketplace. Forfeitures to the TSP and loan fees in 2008 reduced expenses to participants by 2.46 basis points.

Your letter additionally notes that the TSP keeps investment costs low by limiting investment choices. We agree, and note that the low cost index funds we provide under our law are available to 401(k) plans, and many do offer them as well.

Finally, the TSP does clearly receive advantageous treatment from the U.S. Treasury for two major activities: as required by our statute, the Government Securities Investment Fund is directly invested with the Treasury. Further, the Treasury provides check writing services at no cost to the TSP or its participants. In the first instance, the services provided by Treasury in support of the G Fund are similar to those it provides in support of the Civil Service Retirement and Disability Fund and the Social Security Trust Fund. In the latter case, check writing services are provided free to all Federal agencies and thus do not constitute any "special treatment," except when comparing TSP expenses to the expenses borne by other similar plans.

Post-Hearing Questions for the Record
Submitted to Mr. Greg Long
Executive Director, Federal Retirement Thrift Investment Board
From Senator Ron Johnson

"State of Federal Privacy and Data Security Law: Lagging Behind the Times?"
July 31, 2012

1. Can you please explain DHS' role in assisting FRTIB with IT security policies and practices? What third-party providers do you rely on for IT security?

As required by FISMA, the FRTIB notified US-CERT within one hour of determining that personally identifiable information had been accessed as a result of the cyber attack. US-CERT requested information, which we provided as it became available. During the incident response and breach notification process, we did not receive assistance from DHS.

We subsequently became aware that DHS was offering "Red Team"/"Blue Team" assistance to agencies. We have spoken with DHS in a very preliminary manner to determine what services DHS could provide to the FRTIB and will keep that resource in mind as we move forward with our Tiger Team review.

Operationally, we receive third-party IT security support from Serco and its subcontractors. Additionally, we have contracted with an independent company to provide consulting and program support assistance to the CISO and the Tiger Team. We will propose a budget request to continue and increase that independent support in FY13.

Post-Hearing Questions for the Record
Submitted to Mr. Greg Long
Executive Director, Federal Retirement Thrift Investment Board
From Senator Daniel Akaka

"State of Federal Privacy and Data Security Law: Lagging Behind the Times?"
July 31, 2012

1. In 1999, the Office of Management and Budget directed agencies to identify a senior agency official responsible for information privacy issues. In 2008, the Government Accountability Office examined 12 large agencies and found that several of the senior privacy officials did not have oversight of all key privacy functions.

    a. Please discuss the duties and authorities of the Federal Retirement Thrift Investment Board's (Board) designated privacy official.

The General Counsel of the FRTIB serves as the agency's designated privacy official. The General Counsel is responsible for overseeing the FRTIB's compliance with all applicable privacy requirements of the Privacy Act and the E-Government Act of 2002, as well as any other privacy initiatives that are deemed in the best interest of the Thrift Savings Plan's participants and beneficiaries. The General Counsel's responsibilities also include ensuring that the FRTIB's Systems of Record Notices and Privacy Act notices are up-to date, that the FRTIB performs Privacy Threshold Analyses and any required Privacy Impact Assessments, and that appropriate FRTIB staff and contractor staff are trained regarding privacy considerations.

b. Please discuss how the Board ensures that the designated privacy official is able to adequately oversee all key privacy functions.

The Board has established a Privacy Act initiative, led by the General Counsel as the Agency's designated privacy official. In addition to representatives from the Office of General Counsel, the team is staffed with representatives from other offices involved in overseeing Agency records systems, including the information security office, the benefits office, the risk management office and the records office. This team will develop procedures for ensuring Privacy compliance throughout the Agency and its contracting staff. As part of this effort, the General Counsel will be hiring a new staff member to handle day-to-day Privacy Act functions, as well as a senior attorney who will be tasked with the oversight of Privacy Act compliance. Based upon the recommendations of the Privacy Act Team, additional steps and resources may be required.

c. Please explain the circumstances, timing, and rationale for the recent transfer of privacy responsibilities from the Director of Administration to the General Counsel.

In the 2003-2004 timeframe, a decision was made by the prior Executive Director to reduce the size of the Federal employees working for the FRTIB. As a result, the number of employees actually on board went from slightly less than 100 to the mid-60s. As a result, the number of employees in the Office of Administration shrunk. During that period, the duties of the designated privacy official were shifted to the Office of General Counsel which has performed them since the transfer. While that transfer was not documented at the time, the current

Executive Director formally designated the General Counsel as the Board's designated privacy official on August 2, 2012.

2. The Board's May 25, 2012, breach notification letter alerted affected individuals that they are eligible for free credit monitoring. However, only approximately 16,000 people – or 13 percent – of those impacted have signed up.

    a. What additional outreach, if any, has the Board made to encourage people to monitor their credit?

The FRTIB has not made additional outreach. There was wide coverage of the cyber attack in media, particularly media read by Federal employees and the uniformed services, and we believe people were adequately informed. To date, 20,934 affected individuals, or 17 percent, have enrolled in the credit monitoring, which exceeds industry standards of roughly 10 percent.

    b. Please explain whether the Board initiated or is planning to initiate any other follow-up assistance to those impacted by the data breach?

Please see answer to question 2a above.

Post-Hearing Questions for the Record
Submitted to the Mr. Greg Long
Executive Director, Federal Retirement Thrift Investment Board
From Senator Tom Carper

"State of Federal Privacy and Data Security Law: Lagging Behind the Times?"
July 31, 2012

1. Many Americans were very troubled to learn about the data breach at the Thrift Savings Plan. While the breach occurred at one of your contractor sites, it still raises questions about your agency's cybersecurity efforts and your oversight of contractors. Audits produced by the Department of Labor and the Government Accountability Office highlight a number of cybersecurity gaps at the Federal Retirement Thrift Investment Board going back several years. Given the security vulnerabilities identified by the Department of Labor and others, why didn't the Federal Retirement Thrift Investment Board take more action to address the concerns raised in the audits? If the lack of resources was part of the reason, please explain any fiscal, operational, or administrative changes the Board is making or contemplating to remedy previous funding shortfalls in order to better meet its future IT security needs.

The past decade has been a time of dramatic expansion for the agency, in the number of participants, the dollars invested in the TSP, and the services provided to our participants and beneficiaries. This growth taxed the agency's ability to complete all that needed to be done.

While we have open IT and security audit recommendations from the Department of Labor, we have been keenly focused on upgrading our infrastructure and security across the past ten years. We have created new call centers, instituted a back up data center to ensure continuity of operations, updated our record keeping software, purchased a new mainframe, developed disaster recovery plans and testing for those recovery plans, mainframe, modernized the TSP network (including providing for full redundancy and high availability), initiated a virtual infrastructure, deployed a new www.tsp.gov website, and implemented test tools. These efforts speak to major IT or IT support activities that provided technical controls to improve our IT security posture, especially with respect to technical controls.

On September 24, 2012, I will present the Board with my budget request for FY2013. That budget will contain an increase in funds and staffing that will allow the FRTIB to make significant progress in addressing the open audit recommendations.

2. In your testimony, you outlined several steps you are now taking to enhance IT security for the Thrift Savings Plan. Please discuss how these enhancements meet the agency's obligations under the Federal Information Security Management Act. Please also describe any outstanding audit recommendation from the Department of Labor and your timeline for closing the recommendations.

The Agency is in the process of responding to a number of IT Security audit recommendations. Actions that we have taken in the past several months are responsive to the audit recommendations and we plan to address several additional recommendations by the end of the year. We anticipate that the Department of Labor will be reviewing the status of these recommendations during their FY2013 IT security audits.

The audit recommendations can be classified in the following categories: governance of information systems, such as systems lifecycle, information security, and privacy.

Systems lifecycle: To address these findings, the Agency has implemented several significant efforts to improve its management of information systems:

- A Software Development Lifecycle policy for addressing software development management; and is working on a System Development Lifecycle approach to complement the Software methodology;
- A security lifecycle methodology (as part of the Enterprise Information System Risk Management program), which will be integrated with the Systems and Software Development Lifecycle methodologies;
- A project management framework, which was used on several recent major projects, including the implementation of the Roth feature; and
- A Request for Proposal (RFP) for our record keeping contractor will be issued by the end of December 2012, which will include performance and security requirements. The new contract is expected to be awarded by the end of FY2013.

Information Security: A key milestone in resolving these findings occurred in September of 2011 when I approved an Agency Directive establishing the Enterprise Information System Risk Management (EISRM) program that provides a framework for the Agency to manage risk associated with information systems. On June 29, 2012, I approved eighteen constituent control family policies, derived from NIST Special Publication 800-53rev3, which establish the requirements of the program. We are now moving to implement the processes that will ensure compliance with these policies.

Privacy: The EISRM addresses the proper security categorization of information and information systems and the proper handling of PII. The Agency issued a breach notification plan in June of 2012. The Agency has a team in place to focus on conducting Privacy Impact Assessments (PIAs).

3. What near and long-term steps are you taking to improve the IT security requirements in your contracts and to strengthen your oversight of the contractors that manage the Thrift Savings Plan?

The FRTIB is enhancing the IT security clauses in its contracts, as the contracts come up for re-bid or renewal. We are adding more detail regarding data breach requirements, as well provisions relating to security audits, personnel security (screening and rescreening), security and privacy training requirements, and integration of specific FISMA and Privacy Act requirements.

The RFP for the recordkeeping contract will incorporate many of these additional clauses as well as several others which integrate specific FRTIB security requirements as established by the Agency's EISRM program's requirements which are derived in large part from FISMA. We have retained Gartner Consulting to assist us in the development of this RFP to ensure we are incorporating industry best practices into the contract on all fronts.