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Correspondence Memorandum

Date: October 23, 2018
To: Deferred Compensation Board
From: Shelly Schueller, Director
Wisconsin Deferred Compensation Program
Subject: FDIC Option Recommendation

The Investment Committee and the Department of Employee Trust Funds (ETF) recommend the following regarding the WDC's FDIC option:

- 1. Short term: Permitting Nationwide to appoint a successor bank and transfer the FDIC account to this new bank before the end of 2018; and**
- 2. Long term: Closing the option and mapping FDIC account balances to the Vanguard Money Market fund.**

At the June 27, 2018, meeting of the Investment Committee, the WDC's overall investment design was reviewed. The analysis indicates that the WDC is over-weighted in capital preservation options, which currently include a stable value fund, the Vanguard Money Market Fund, and the FDIC option.

The current provider of the WDC's FDIC option (Nationwide Bank), announced that it intends to exit the retail bank business, which includes standard individual checking accounts and the FDIC option offered to WDC participants. Nationwide is revising its bank charter and desires to be out of the retail business by the end of calendar year 2018. As of September 30, 2018, approximately 9,500 WDC participants held over \$118 million in this option, with approximately 60 participant accounts holding more than the individual FDIC insurance limit of \$250,000.

With Nationwide Bank's pending exit, the Board must take action regarding the FDIC option. Possible actions include:

1. Allowing the WDC FDIC account to be sold by Nationwide Bank to a successor financial institution;
2. Authorizing an RFP process that could result in a contract with a new FDIC option provider; and
3. Discontinuing the WDC FDIC option and sweeping FDIC account balances to a fund with a similar capital preservation objective.

Reviewed and approved by Matt Stohr, Administrator, Division of Retirement Services

Electronically Signed 10/29/18

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In the short term, ETF recommends permitting the FDIC account to be sold by Nationwide Bank to Johnson Bank. Johnson Bank was founded in 1970 by Samuel C. Johnson, fourth generation leader of SC Johnson. It is based in Racine, Wisconsin, and has approximately \$5 billion in assets. Johnson Bank offers standard banking services such as savings accounts and loans in addition to insurance, investment, and wealth management services. It has nearly 50 locations, most in Wisconsin, as well as offices in Minneapolis and Phoenix. Principal owners of Johnson Financial Group are members of the Samuel C. Johnson family including Helen Johnson-Leipold, who serves as Chairman of Board. Mark Behrens is the current chief financial officer for Johnson Bank.

Moving the WDC's FDIC account to Johnson Bank would enable Nationwide Bank to exit the retail bank business by the close of 2018. Johnson Bank has indicated it can meet the terms of the existing FDIC contract. ETF's Office of Legal Services has reviewed the draft contract language between Nationwide and Johnson Bank, and the Board's FDIC contract language and believes this assignment is permissible. Although the WDC's FDIC option does not always specifically identify the option provider, the change in banks could be communicated to WDC participants via the WDC website and future quarterly statements.

In the long run, the Investment Committee and ETF recommend that the FDIC option be discontinued because the FDIC provider marketplace is limited and the WDC is heavily weighted with similar capital preservation funds. ETF further recommends that the Board direct that any existing FDIC account balances that are not moved by participants to another option by the time the FDIC option is closed be mapped to the Vanguard Money Market fund. Mapping to the Vanguard Money Market fund is recommended because the Vanguard Money Market fund is also a capital preservation fund. While the Vanguard Money Market fund does not offer FDIC protections, it has its own set of protections. It invests in high-quality, short-term money market securities whose interest and principal payments are backed by the full faith and credit of the U.S. government. At least eighty percent (80%) of the Vanguard Money Market fund's assets are to be invested in U.S. Treasury securities; the remainder of the assets may be invested in securities issued by U.S. governmental agencies. The Stable Value Fund cannot be used because that fund has an existing equity wash prohibiting the direct transfer of FDIC funds.

If the Board decides to discontinue the FDIC option, ETF staff will work closely with the FDIC provider and record keeping staff to develop a timeline and plan for closing the FDIC option, including how and when information will be communicated to WDC participants. ETF recommends repeated notification to WDC participants, via email and a special paper mailing as well as on the WDC website.

"Nationwide to exit retail banking business; 240 workers to be affected." Mark Williams. The Columbus Dispatch. May 7, 2018 <http://etf.wi.gov/boards/agenda-items-2018/dc0614/item11i.pdf>

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Staff will be at the Board meeting to answer any questions.