

MEMORANDUM

TO: SHELLY SCHUELLER, DIRECTOR
WISCONSIN DEFERRED COMPENSATION PROGRAM

FROM: CURT MORROW
INVESTMENT SERVICES MANAGER
NATIONWIDE RETIREMENT SOLUTIONS

DATE: September 29, 2004

RE: Allocations for the FDIC Option

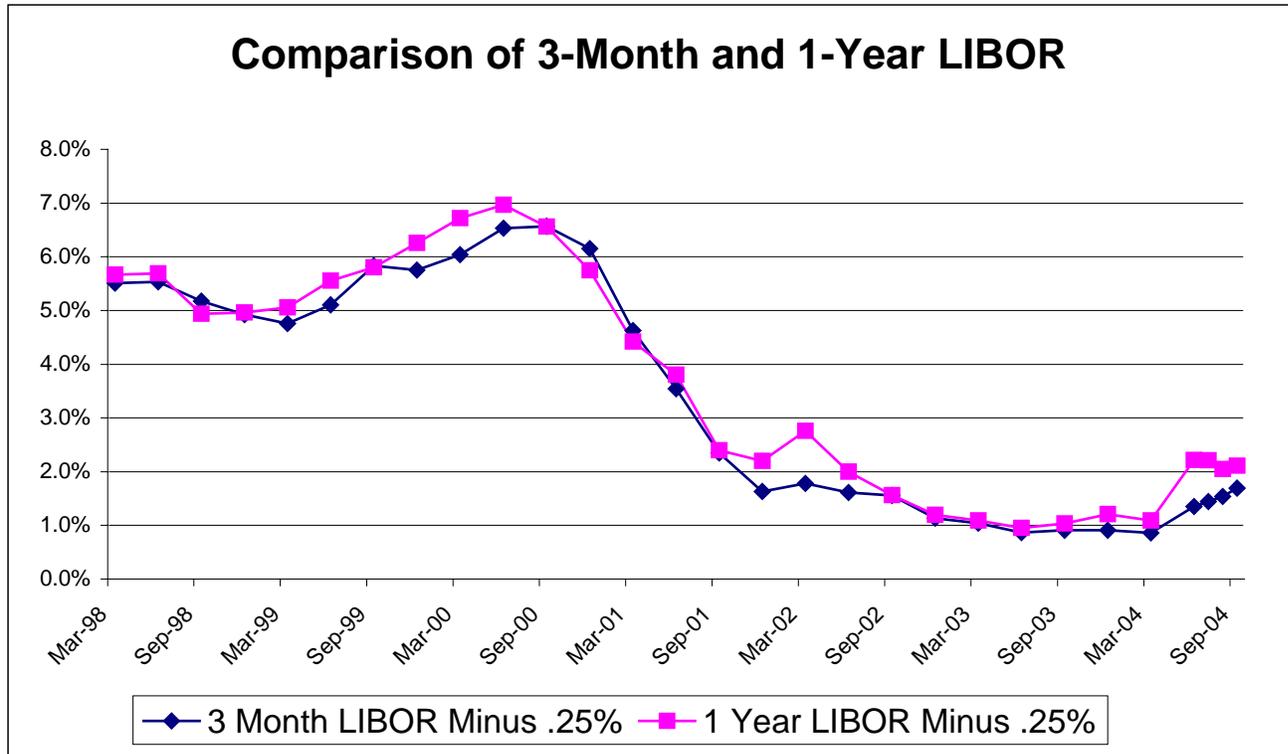
M&I Bank of Southern Wisconsin, which is under contract for the Federal Deposit Insurance Corporation (FDIC) investment option has proposed that the Wisconsin Deferred Compensation (WDC) program may select either an entirely Floating rate option or a blended Fixed/Floating interest rate option at the discretion of the WDC Board.

The Fixed/Floating Interest Rate Option permits the WDC Board to determine what portion of the FDIC account would receive a fixed interest rate and what portion of the account would receive the floating interest rate. This allocation was set at the initiation of the contract with M&I Bank in October 2000 and may be changed at every annual anniversary with 30 days notice. Participants would receive the blended rate of interest. The Fixed component would be based on the twelve month LIBOR, not to exceed the remaining term of the contract, less a spread of 0.25%. The Floating Rate Option equals the three-month LIBOR rate minus 0.25%.

The British Bankers' Association (BBA) LIBOR is the most widely used benchmark or reference rate for short-term interest rates. LIBOR stands for the London Interbank Offered Rate and is the rate of interest at which banks borrow funds from other banks, in marketable size, in the London interbank market. The BBA is the leading trade association in the banking and financial services industry representing banks and other financial services firms operating in the UK. It has 250 members, as well as many associate members, which fund its not-for-profit activities. Eighty-five percent of members are involved in providing wholesale banking services and three quarters of the members are of non-UK origin, representing sixty different countries.

During a period of declining interest rates, a higher percentage in the Fixed component would be prudent, while during a period of rising interest rates, a higher percentage in the Floating component would be more prudent. The graph on the following page provides a visual comparison of the 3-month (or floating) and 1-year (or fixed) LIBOR interest rates from March 1998 through September 21, 2004. Both rates have declined during the period. Since March 2003, both interest rates have been near 1.0 percent. Rates began an upward trend during the past few months.

Although it is impossible to accurately determine the short-term direction in interest rates, there is a significantly higher probability that interest rates will rise rather than fall in the immediate future. A larger allocation to the Fixed component may be unwise as the Floating interest rate may exceed the Fixed interest rate (established at the beginning of the twelve-month period) at some point during the twelve-month period.



The current spread between the Fixed and Floating interest rates is 42 basis points (bps) and the advantage of the 50/50 split versus a 75/25 split is 10 bps. The potential that the Floating portion of the formula might rise above the Fixed portion is significant. Following are the interest rate components as of September 21, 2004:

12 month LIBOR – 25 bps (Fixed rate) = 2.11%
 3 month LIBOR – 25 bps (Floating rate) = 1.69%

The potential interest rates the FDIC account would generate using either a 25% Fixed/75% Floating interest rate split or a 50% Fixed/50% Floating interest rate split are as follows:

	@ 25% Fixed/75% Floating	@ 50% Fixed/50% Floating
FDIC Blended Interest Rate	1.795%	1.90%

Recommendation

After considering the options, NRS recommends continuing the same 75/25 split following last year’s review, with 75% of the account receiving the Floating interest rate and 25% of the account receiving the Fixed interest rate.

A shorter-term strategy seems prudent, giving a significant weighting to the 3-month Floating LIBOR, rather than trying to guess the short-term impact of the spread between the two rates.

cc: Sue Oelke
 Mike Studebaker
 Rick Genel