



STATE OF WISCONSIN
Department of Employee Trust Funds

Eric O. Stanchfield
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
TTY (608) 267-0676
<http://etf.wi.gov>

CORRESPONDENCE MEMORANDUM

DATE: March 14, 2006
TO: Deferred Compensation Board Investment Committee
FROM: Shelly Schueller
SUBJECT: WDC FDIC Contract

As a result of the Wisconsin Deferred Compensation (WDC) Program's 2005 administrative transition, staff reviewed the Federal Deposit Insurance Corporation (FDIC) investment option contract with M&I Bank (M&I).

Summary

Staff recommended that the Deferred Compensation Board Chair sign a revised twelve-month agreement with M&I. The contract will provide two accounts to enable WDC participants to trade their FDIC investments. The change in the contract term from three years to twelve months preserves the twelve-month rolling horizon automatic extension provision contained in the previous agreement, yet allows the Board flexibility in case it decides to find another provider for the FDIC option. The Board Chair reviewed the contract and signed it in January 2006.

Background

M&I stated that the WDC's FDIC account is required to abide by federal Regulation D. Regulation D limits the number of transfers, withdrawals and third party payments that can be made on or from a regular share account or money market account. Transactions performed electronically are limited to six per month from a regular share account or money market account.

This means that during any calendar month or statement cycle, WDC participants may not make more than six withdrawals or transfers from the FDIC option. Although only 2,600 (6%) of the WDC's 42,800 participants currently hold FDIC accounts, the withdrawal limitation is not feasible.

To circumvent the six withdrawal limitation, it appears that the previous WDC recordkeeper was allowing participants to trade daily, but aggregating all WDC participants' trades at the end of each week to send to M&I. This practice is not permitted with Great-West; Great-West is not allowed to loan the WDC funds for trading. If a participant wants to transfer out of the FDIC option and into another option, Great-West must have the money from the participant's previous fund to transfer into the new fund.

Reviewed and approved by Dave Stella, Deputy Secretary

Signature

Date

Board	Mtg Date	Item #
DCIC	03/28/2006	2

In order to provide a viable savings account option, M&I proposed a two-part FDIC account for the WDC's FDIC option: a money market account and a "NOW" transactional/checking account with interest. This arrangement would allow WDC participants to move money daily in and out of the checking account and achieve approximately the same rate of return as the previous M&I money market account. An aggregate trade would be done by M&I at the end of the week into the savings account.

The NOW account is insured just like the money market account, because the FDIC provides insurance up to \$100,000 regardless of in which account the funds are deposited. M&I also proposed to provide nearly the same rate of return on the NOW account as they were providing with the money market account. This means that participants should see virtually no change.

The advantage to this arrangement is that the majority of WDC participants' money remains in the money market account, an account without reserve restrictions, which will help the overall investment achieve a return that is close to the return the WDC had previously enjoyed.

The disadvantages to the WDC of this new arrangement are:

- 1) The checking account requires a minimum threshold to cover redemptions. M&I started the threshold at ten percent, or approximately \$500,000, but this amount could be adjusted higher or lower after experience shows the minimum level needed to cover redemptions; and
- 2) Beginning January 1, 2006, WDC participants have lost 15 basis points of interest when compared to the previous agreement. This is because M&I replaced the previous spread of 25 basis points with a 40 basis point spread. M&I stated that this increase was needed largely to cover the additional work associated with the NOW account and that it is competitively priced with similar products on the market.

Recommendation

Staff recommended that the Deferred Compensation Board Chair accept the two-part FDIC account for the WDC's FDIC option: a money market account and a "NOW" transactional/checking account with interest, and sign a revised twelve month agreement with M&I.

The change in the contract term from three years to twelve months preserves the twelve-month rolling horizon automatic extension provision contained in the previous agreement, yet allows the Board flexibility to find another provider for the FDIC option. The Board Chair reviewed the contract and signed it in January 2006.