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CORRESPONDENCE MEMORANDUM

DATE: November 3, 2011

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: FDIC Fixed/Floating Interest Rate Decision

Staff recommends the Board approve Advised Asset Group's FDIC interest rate recommendation for 2012 and keep the allocation the same as 2011: 75% of the interest rate to the fixed portion and 25% to the floating portion.

BMO Harris Bank, N.A. (formerly M&I Bank of Southern Wisconsin) has been under contract to offer the Federal Deposit Insurance Corporation (FDIC) bank option for Wisconsin Deferred Compensation (WDC) Program participants since January 1, 2001. WDC participants holding assets in the FDIC account receive a blended rate of interest based on the fixed/floating interest rate allocation selected by the WDC Board.

The Board's contract permits the Board to change the percentage allocated to the fixed and floating interest rate for the following year provided the Board gives the bank a thirty day notice.

To determine the interest rate that will be applied to participant accounts in 2012, action is needed by the Board at the November 2011 meeting to set the percentage of the FDIC account assigned to the fixed and floating interest rate calculation. The attached memo from Bill Thornton at Advised Assets Group (a division of Great-West Retirement Services) provides background on the recommended allocation for 2012.

Mr. Thornton from AAG recommends that the Board make no change to the existing allocation. This means the allocation for 2012 would remain the same as in 2011: seventy-five percent (75%) to the fixed portion and twenty-five percent (25%) to the floating portion. Staff concurs with this recommendation. It is the same allocation that the Board selected for the past four years, and appears prudent given market volatility and continued worldwide economic uncertainty.

Mr. Thornton and Department staff will be available at the meeting to discuss this recommendation.

Attachment

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

Matt Stohr 11/3/11
Signature Date

Board	Mtg Date	Item #
DC	11.15.11	9

Memorandum

To: Shelly Schueller, Director,
Wisconsin Deferred Compensation Program

From: Bill Thornton, Senior Portfolio Manager,
Advised Assets Group

Date: October 6, 2011

Re: Allocation for the FDIC Option

The M&I Bank of Southern Wisconsin permits the Wisconsin Deferred Compensation Board (the Board) to set the allocation of the FDIC option used in calculating the interest rate. The allocation is composed of a floating rate portion based on the 3 month LIBOR less .40% reset each quarter and a fixed portion based on the 12 month LIBOR less .40% reset annually.

Typically taking advantage of this blended rate requires setting a higher allocation to the floating portion (3 month LIBOR) in a rising interest rate environment. Conversely, in a falling interest rate environment a higher allocation to the fixed portion (12 month LIBOR) is more beneficial.

The historically low interest rate environment that has been in place since 2008 has continued unabated into the Fall of 2011. The Federal Open Market Committee (FOMC) continues to target a Federal Funds Rate of between 0.0% and 0.25%, the same range that the FOMC has maintained since the end of 2008. Accordingly, the short end of the Treasury yield curve remains very flat with all maturities less than 5 years yielding less than 1.0%.

Predicting the direction of short-term interest rates has historically been challenging. However, based upon recent testimony from Federal Reserve Chairman Ben Bernanke concerning the overall state of the U.S. economy, it would appear that the FOMC does not foresee increasing the target Fed Funds Rate in the near future. More specifically, the FOMC stated at its August 2011, meeting that "economic conditions were likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013." As a result, we would not anticipate a substantial rate increase in the next several months.

As of 10/5/11, current 3-month LIBOR is 0.38% and 12-month LIBOR is 0.86%. These rates, in conjunction with the above factors lead AAG to recommend a 75% allocation to the fixed portion and a 25% allocation to the floating portion. However, should the Board desire to take advantage of a higher fixed portion, a 100/0 split would also be prudent.

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