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CORRESPONDENCE MEMORANDUM

DATE: October 15, 2012

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 2013 and keep the allocation the same as 2012: 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 30-day notice.

To determine the interest rate to be applied to participant accounts in 2013, the Board, at its November 2012 meeting, must take action to set the percentage of the FDIC account assigned to the fixed and floating interest rate calculation. The attached memo from Bill Thornton, of Advised Assets Group (a division of Great-West Retirement Services), provides background on the recommended allocation for 2013.

Mr. Thornton recommends the Board makes no change to the existing allocation. This means the allocation for 2013 would remain the same as in the recent past: seventy-five (75%) to the fixed portion and twenty-five percent (25%) to the floating portion. Staff concurs with this recommendation. It is the same allocation the Board selected for the past five years and appears prudent, given the 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
Signature

10/16/12
Date

Board	Mtg Date	Item #
DC	11/6/12	6a

ADVISED ASSETS GROUP

To: Shelly Schueller, Director,
Wisconsin Deferred Compensation Program

From: Bill Thornton, Lead Client Portfolio Manager,
Advised Assets Group

Date: October 10, 2012

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 began near the end of 2008 currently remains in place. 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 for the past four years. This is unlikely to change in the near future, based upon comments from the September, 2012, meeting of the FOMC. In its official post-meeting statement, the committee stated that it would keep the Fed Funds Rate "at zero to ¼ percent at least through mid-2015."

While predicting the direction of short-term interest rates has historically been challenging, it appears from the actions of the FOMC that the current low rate environment will persist for some time. In addition to its comments after the September meeting, the Federal Reserve also announced that it would begin another round of quantitative easing. This is the third time the Fed has actively began purchasing mortgage-backed securities in the open market in an effort to drive interest rates lower and hopefully stimulate the economy. As a result, it would appear that a substantial increase in interest rates is unlikely.

As of October 10, 2012, the current 3-month LIBOR rate is 0.35% and the 12-month LIBOR rate is 0.95%. 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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