August 31, 2019

RECEIVED
EMPLOYEE TRUST FUNDS

2019 SEP 18 AM 8:42

Mr. Edward Main
Deferred Compensation Board
c/o Board Liaison
Department of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931

Dear Mr. Main,

I was disappointed and disturbed by the notice I received on May 31, 2019 regarding changes to the FDIC Option for Wisconsin's Deferred Compensation Program.

The program contracted with Johnson Bank in December of 2018 to take over the FDIC option. Subsequent to that the board approved changes in the contract to revise the rate of return and the rate reset frequency. Statements were made in the letter without any explanation or justification.

"Research showed that the method used to calculate the rate of return was not sustainable." What research? What does "sustainable" mean? Does it mean the bank feels it isn't making enough profit? And why was that method apparently used successfully for so many years? The letter also states "few banks were interested in providing WDC's FDIC Option" yet Johnson Bank was interested enough to take on the contract. It only takes one bank to run the option. The letter also states "The above changes may result in lower returns but are necessary for the WDC to continue to offer the FDIC option". Why, after all these years is it necessary?

These changes will result in lower returns and may indeed mean a net loss after management fees. This harms WDC members. It also pressures members to move their funds into investments that are not insured. Why would the WDC board approve this? It's the board's responsibility to act in the best interests of the members, not the bank.

The funds in my WDC account represent the bulk of my savings which is why I have them invested in the FDIC option. And it's why I have great concern about my funds being whittled away by management fees and a very low rate of return seemingly to increase bank profits. I think the WDC Board has a responsibility to provide a better explanation and more justification to its members for these changes that reduce their benefits.

Sincerely,

Irene Schmidt

Irene Schmidt
1820 E. Blue Mounds Rd.
Mount Horeb, WI 53572

Cc: Sen. Jon Erpenbach

STATE OF WISCONSIN
Department of Employee Trust Funds
Robert J. Conlin
SECRETARY

Wisconsin Department
of Employee Trust Funds
PO Box 7931
Madison WI 53707-7931
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September 26, 2019

IRENE SCHMIDT
1820 E BLUE MOUND RD
MOUNT HOREB, WI 53572

Dear Ms. Schmidt:

Thank you for writing to the Deferred Compensation Board Chair to express your concerns regarding the changes made during the last year to the FDIC option offered through the Wisconsin Deferred Compensation Program (WDC). I am responding to your recent letter to the Board Chair which was received by the Department of Employee Trust Funds (ETF) on September 18, 2019.

The Board recognizes that participants who seek to safeguard principal value or need asset liquidity regularly use the WDC's FDIC option. As of June 30, 2019, over 10,600 of the WDC's 63,000 participants have placed some of their WDC retirement savings in the FDIC option.

The FDIC contract has been held by several different banks through the years. These banks proposed different methods of calculating the rate of return. For example, M&I Bank held the contract for the FDIC option from 2001 to 2013. Under this contract, the quarterly rate of return was a blended rate based on a fixed/floating interest rate allocation selected annually by the Board.

M&I Bank was purchased by BMO Financial Group (BMO) and on September 17, 2012, the Board was notified by BMO that BMO would not renew the FDIC contract. As a result of this, in November 2012 the Board authorized ETF to release a request for proposal (RFP) for a new FDIC provider. Only two banks responded to the RFP. As a result of this RFP, Nationwide Bank was awarded the FDIC contract in 2013. Under the terms of the Board's contract with Nationwide, the FDIC rate of return remained quarterly and was subject to a guaranteed interest rate floor equal to the current applicable rate for the 90-day U.S. Treasury bill plus a spread of 15 basis points (0.15%), at no time less than 30 basis points (0.30%).

Media articles in 2018 indicated that Nationwide Bank intended to leave the retail banking business, including providing the WDC's FDIC option, by the end of 2018. However, Nationwide did not formally notify the Board per the contract requirement. ETF determined in late 2018 that Nationwide was in breach of the contract it held with the Board. Consequently, to protect the interests of WDC participants with assets in the

FDIC option, the Board was forced to immediately seek another bank to assume the FDIC contract. This was necessary as without a new bank contract, the Board could not provide an FDIC option to you and other WDC participants.

At the December 17, 2018, Board meeting, Johnson Bank provided the Board with information regarding the Bank's abilities and interest in providing the FDIC option. Johnson Bank noted that the interest rate of return in the Board's FDIC contract with Nationwide was above current marketplace returns. The bank respectfully requested that if the Board opted to contract with Johnson Bank for the FDIC option, then the Board consider revising the contract language related to the interest rate methodology.

The Board approved assigning the FDIC contract to Johnson Bank on December 17, 2018, and agreed to consider contract revisions during 2019. After reviewing the marketplace and weighing alternatives, an agreement was reached to revise the FDIC contract with Johnson Bank to reflect resetting the interest rate on a monthly basis, based on the 90-day U.S. Treasury bill less a spread of 15 basis points. As you pointed out, this is different than the previous contract language with Nationwide, which set the interest rate on a quarterly basis using the 90-day U.S. Treasury bill plus a spread of 15 basis points.

The Board approved the new interest rate methodology after determining that the previous contract using "plus a spread of 15 basis points," was an anomaly among rates provided by most banks in the current marketplace. The timing of the interest rate reset to monthly was done with the intent of keeping the rate movement in step with the market during periods of high volatility.

The Board understands that WDC participants value the FDIC option, and will continue to seek the best possible contract terms and interest rates available. If they determine that rates more favorable for participants may be possible, then they may approve a new RFP for FDIC option providers. If this occurs, depending on the outcome of the RFP, the bank providing the FDIC option and how interest is calculated and applied may change again.

Thank you for writing. I hope this information helps clarify how and why the Board agreed to the changes that occurred in the FDIC option during the past year. Please contact me at 608.266.6611 if you have additional questions.

Sincerely,

Shelly Schueller
Deferred Compensation Director

cc: Senator Jon Erpenbach

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