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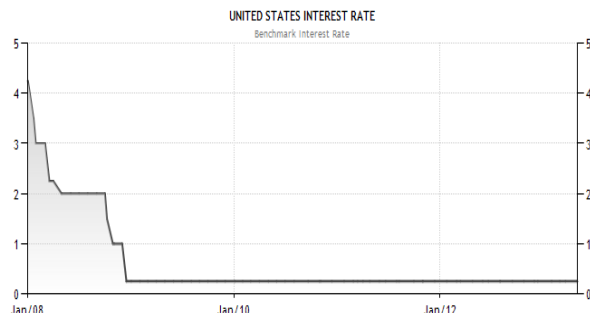
DATE: May 20, 2013
TO: Wisconsin Deferred Compensation Board
FROM: RFP ETC0014 Evaluation Committee and
Shelly Schueller, Deferred Compensation Director
SUBJECT: Recommendation for an FDIC-Insured Investment Option Provider
(Results of RFP ETC0014)

The Department recommends the Board begin contract negotiations with Nationwide Bank to provide an FDIC-Insured investment using the “variable-only” pricing option for the Wisconsin Deferred Compensation Program (WDC), with final contract approval to be delegated to the Board Chair.

Background

As part of its efforts to stimulate job creation and the overall U.S. economy, the U.S. Federal Reserve has kept its benchmark interest rate at historically low levels (0.25%) since early 2009. This low interest rate (see graph below) has made it difficult for many financial institutions, such as life insurance companies and banks, to consistently return a profit on products that rely on the interest rate.

Some of these companies have been forced to re-evaluate their product offerings, adjusting and in some cases ceasing to offer products that are particularly vulnerable to low interest rates. This appears to be the case for the firm providing the Federal Deposit Insurance Corporation (FDIC) Insured investment option. At the November 2012 meeting, the Board learned that the current FDIC-Insured investment option provider will no longer be offering the WDC’s FDIC-Insured option effective as of November 2013.



SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL RESERVE

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

Electronically signed 5/29/13

Board	Mtg Date	Item #
DC	6.05.13	12

Per the Board's Investment Policy Statement, fixed income investments, such as the FDIC-Insured investment option, must meet the Board's minimum criteria and are to be selected through a competitive request for proposal (RFP) process. The Board subsequently approved staff's request to draft an RFP for a new FDIC-Insured option provider. The Board also delegated review and release approval of the RFP to the Board Chair. RFP ETC0014 was approved by the Board Chair and released on February 13, 2013. Two responses were received by the due date of March 19, 2013.

Evaluation of RFP Responses

ETF staff reviewed the responses to ensure that minimum qualifications requested in RFP ETC0014 were met prior to sharing the responses with the evaluation committee. Responses were rated by an evaluation committee that consisted of subject matter experts from the State of Wisconsin Investment Board, the Department of Financial Institutions, and the Department of Employee Trust Funds (ETF). The three person evaluation committee used a standard evaluation tool to review the technical portion independently, scored the responses independently, and then met to discuss the results prior to rendering their final scores. The vendor's cost proposals were kept secure by ETF's procurement staff and opened separately after technical scoring was completed.

ETC0014 EVALUATION	
Technical Criteria	Weight
Investment Option Expected Performance and Operations	40%
Firm Experience	30%
Proposed Fee (Cost)	30%
TOTAL	100%

As indicated on the attached ETC0014 Response Scoring Summary, the evaluation committee scored Nationwide Bank's response higher than the other responding vendor. Nationwide Bank's average technical score was 5.28, while the other vendor's average technical score was 3.93. The Nationwide Bank response scored higher than the other proposal in two out of three technical categories, and its proposed investment rate structure also scored higher (2.40 vs. 3.60). Based on investment return data provided for the last five years ending December 31, 2012, the Nationwide Bank option would provide better return opportunities for WDC participants than the other vendor's product. The quarterly returns for the last five years for both vendors' investment options are provided on the attached "ETC0014 FDIC-Insured Return Comparison" in both numerical and graphical format.

Nationwide Bank provided optional alternative investment return scenarios tied to two different pricing options:

- 1) A “blended” approach structured similarly to the current FDIC-Insured option structure¹ with both a fixed and variable component that would be set by the Board. The fixed portion would be based on the one-year Treasury rate plus a spread of 15 basis points, and the variable portion would be based on the three-month Treasury rate plus a spread of 20 basis points. The proposal also states that with this option, the credited interest rate would not be less than 35 basis points; and
- 2) A “variable-only” approach that would set the interest rate every quarter based on the three-month Treasury rate from the U.S. Department of Treasury plus a spread of 15 basis points. The proposal also states that with this option, the credited interest rate would not be less than 30 basis points.

The response from the other vendor indicated that the WDC’s funds would be invested in an institutional bank deposit account (IBDA), which is a short-term investment option. The IBDA pays an interest rate derived from the “iMoneyNet Money Fund Monitor Institutional Taxable Index” and is updated weekly. As of the end of February 2013, the IBDA yield was 0.10% (10 basis points).

Proposed Fee (Cost)

After the evaluation committee gave its final approval to the scoring of the technical portion of the RFP responses and Department staff completed reference checks that reflected positively on Nationwide Bank, ETF staff opened the proposed fees contained in the responses. As stated in the RFP, 30% of each vendor’s final score was weighted to their proposed fees.

Both responses were evaluated in light of the current market environment, their response’s technical merits and the likelihood that their option would potentially provide better investment returns for WDC participants. This resulted in each firm earning the same maximum score of 45 points despite their different approaches to pricing the FDIC-Insured option.

Nationwide Bank provided two pricing alternatives (discussed above) in which the spread, or cost, would vary from 15 to 20 basis points depending on the model selected by the Board. The response from the other vendor stated that there would be no additional fees for the Board or assessed to WDC participants because this vendor currently provides custodial services for the WDC at a flat fee of \$750 per year via the

¹ Currently, the FDIC-Insured option interest rate is calculated by taking 75% of the 12-month LIBOR less 40 bps plus 25% of the 3-month LIBOR less 40 bps. This blended rate is calculated each quarter. As a result of the current extremely low interest rate environment, the investment returns realized by WDC participants in this option have also been extremely low.

LIBOR = the London Interbank Offered Rate. LIBOR is an influential benchmark interest rate used by financial institutions around the world. It is set daily in London by a group of banks that submit the interest rates they would expect to pay on a loan from another bank. It is also used as a foundation for other rates, such as adjustable rate mortgages.

WDC's third-party administrator. While no cost or fee is attractive, the past performance of this vendor's investment option has consistently been less than that of either Nationwide Bank option, as illustrated on the attached "ETC0014 FDIC-Insured Return Comparison."

Reference Check Results

On behalf of the evaluation committee, Department staff contacted Nationwide Bank's three listed references, which are s. 457 plan sponsors in Tennessee, Florida and California. All three of Nationwide Bank's references were positive and indicated that they would contract with Nationwide Bank again for an FDIC-Insured investment option. They stated that they receive information from the bank on a timely basis and as needed. One reference noted that they have limited direct contact with the bank as they don't have a need for daily interaction. Another plan sponsor commented that Nationwide Bank is responsive and willing to do anything they need. They indicated that the reports they receive from the bank are well organized and user friendly. They have not experienced any unusual issues with the bank. For example, Nationwide Bank has not imposed any liquidity restrictions on their accounts.

At the evaluation committee's request, the Department also contacted the WDC's third-party administrator to learn about their working relationship with Nationwide Bank and determine if they would have any problems working together on behalf of WDC participants. Great-West Retirement Services (GWRS) confirmed that they have an established, positive working relationship with Nationwide Bank. Based on the responses to reference contact questions, Nationwide Bank is able to meet the needs of plans, such as the WDC, who seek to offer an FDIC-Insured investment option. This includes working successfully with various third-party administrators.

Recommendation

The evaluation committee's technical evaluation resulted in a higher score for Nationwide Bank. Nationwide Bank's references were positive and the comparison of past FDIC-Insured option returns indicates Nationwide Bank should provide participants with a better return on their investments than the other vendor's option can provide.

Consequently, staff recommends the Board enter into contract negotiations with Nationwide Bank to provide an FDIC-Insured investment option using the second ("variable-only") pricing option for the WDC. Staff also suggests the Board consider delegating final contract approval to the Board Chair.

If the Board were to approve these recommendations, staff anticipates contract negotiations to begin in mid-June, with a goal of completing a contract such that an orderly transition of WDC assets from the existing FDIC-Insured option provider to the new provider could occur prior to November 2013.

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Department staff will be available at the meeting to discuss RFP ETC0014, the evaluation process, and answer any questions that Board members may have regarding the recommendation in this memo.

Attachments: ETC0014 Response Scoring Summary
ETC0014 FDIC-Insured Return Comparison