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**CORRESPONDENCE MEMORANDUM**

**DATE:** October 25, 2006  
**TO:** Wisconsin Deferred Compensation Board  
**FROM:** Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
**SUBJECT:** WDC Fixed Investment Options Review

For the past several months, staff have been evaluating the Wisconsin Deferred Compensation Program (WDC) fixed fund investment options. Our review indicates that the WDC has more fixed fund options than other similar deferred compensation plans. The WDC also has two fixed fund options that are very similar in investment objective and performance: the Federal Deposit Insurance Corporation (FDIC) bank option and the Vanguard Admiral Money Market option.

**Discussion**

At the May 2006 meeting, the Board reviewed the potential costs and benefits of consolidating the FDIC and the Vanguard Admiral Money Market options. The Board delegated further analysis of this proposal to the Investment Committee. The Investment Committee examined annualized returns from the fixed options over the past five years and requested an estimate of the performance of the FDIC option over the past five years with an administrative fee of 40 basis points (bps) instead of a 25 bps fee. This theoretical historical return is shown in the attached graph, along with the actual returns for the other similar fixed investment options offered by the WDC. As the graph indicates, even with the higher fee, the FDIC option has provided higher returns than the Vanguard Money Market option since June 2004.

**Future Fixed Option Return Forecasts**

The Investment Committee asked both Vanguard and M&I Bank for future investment performance forecasts based on different market scenarios and interest rates. Neither Vanguard nor M&I Bank were willing to provide any specific performance forecasts.

- Vanguard was unable to provide a forecast for future Money Market fund investment performance, but suggested that the performance of the money market will continue to be very competitive because of Vanguard's substantial cost advantage (low fees). Vanguard also noted that due to the short-term nature of the securities in money market funds, investors should expect yields to track in the same direction as short-term interest rates in the marketplace.

Reviewed and approved by Dave Stella, Deputy Secretary  
\_\_\_\_\_  
Signature Date

Board	Mtg Date	Item #
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- M&I Bank was also unable to provide any future investment performance forecasts. M&I Bank stated that it is impossible to tell what interest rates will do in the future and that the WDC's FDIC option returns are also somewhat dependent upon how much the Board allocates to the fixed interest rate versus the floating interest rate. M&I Bank believes that current LIBOR<sup>1</sup> rates are the best indication for future performance. The table below provides current LIBOR rates for future projections as of early October 2006.

<b>Current LIBOR Rates and Expected Future Returns</b> (as of October 2, 2006)			
<b>Year</b>	<b>LIBOR RATE</b>	<b>Less 0.40 bps Adm. Fee</b>	<b>Expected Rate</b>
1 year	5.32%	- 0.40%	4.92%
2 year	5.13%	- 0.40%	4.73%
3 year	5.08%	- 0.40%	4.68%
4 year	5.08%	- 0.40%	4.68%
5 year	5.10%	- 0.40%	4.70%

### **Recommendation**

The Investment Committee recommends that the Board direct staff to continue to closely monitor the returns of both the FDIC and Money Market funds for the next twelve months. If the FDIC option continues to outperform the Vanguard Money Market option during this extended period, despite the 0.15 bps increase in the FDIC administrative fee to 0.40 bps, then the Investment Committee recommends that the Board consider creating one insured money market fund. Creation of one fund would require a competitive bid process.

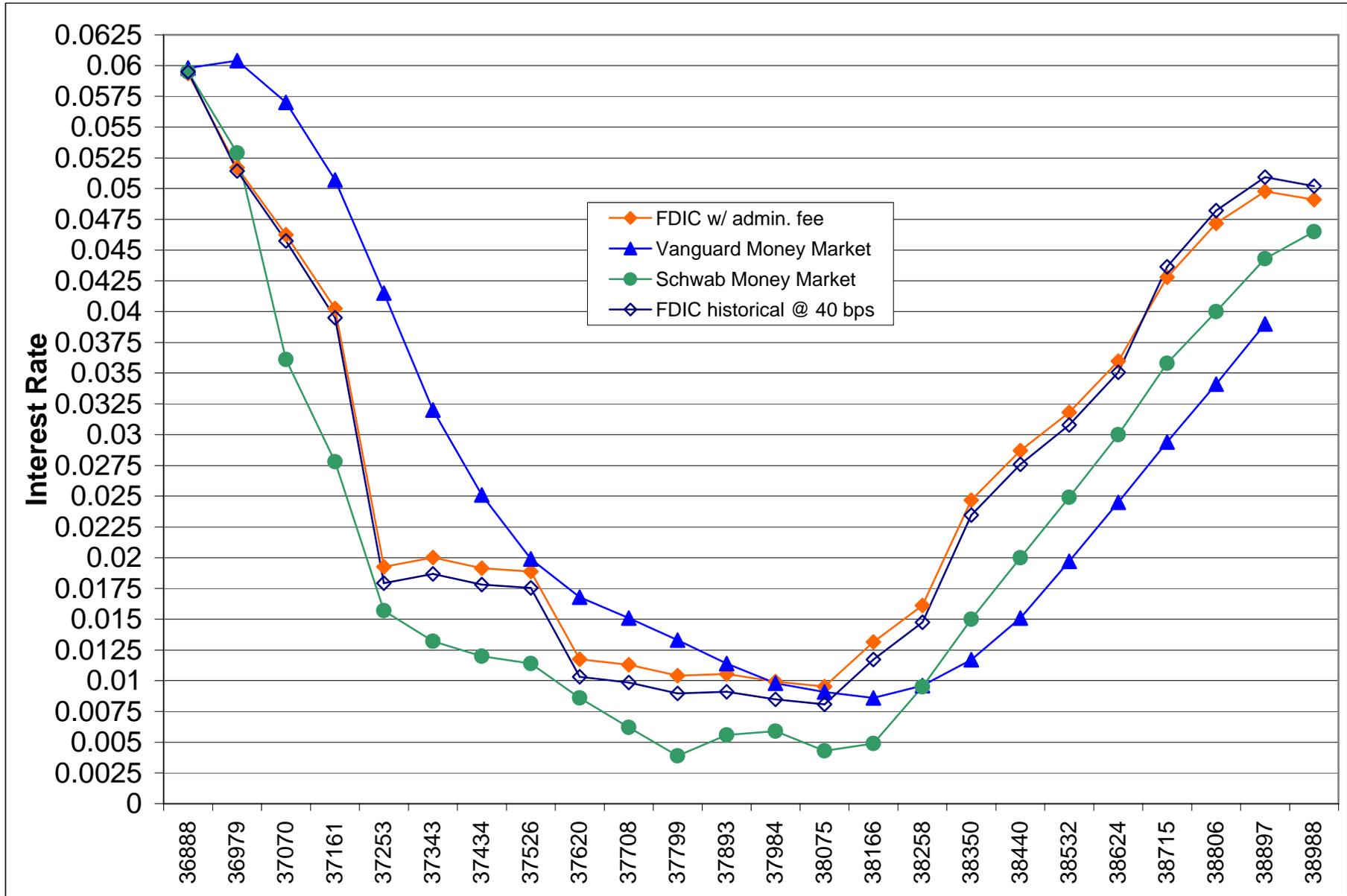
Staff will be available at the meeting to discuss this memo.

Attachment: Graph 1

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<sup>1</sup> LIBOR is the *London InterBank Offered Rate*. LIBOR is the rate on dollar-denominated deposits, also known as Eurodollars, traded between banks in London. It is the rate that the most creditworthy international banks charge each other for large loans.

## WDC FDIC and Money Market Quarterly Annualized Returns (net of fees) December 2000 - September 2006





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Compensation Program**

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October 25, 2006

Ms. Shelly Schueller  
801 W. Badger Road  
Madison, WI 53707

Dear Shelly:

At the request of the WDC Board and Department, Great-West Retirement Services® (GWRS) developed and implemented the WDC Vanguard Money Market Default Fund Marketing Strategy (see attachment). The purpose of this strategy was to contact WDC participants who have a portion, or all, of their assets defaulted into the Vanguard Money Market as a result of a fund closure.

The Marketing Strategy involved three main touch points: WDC Newsletter, e-mail contact, and direct mailer. Due to the limited number of e-mail addresses for the target group, GWRS implemented the newsletter and target marketing campaign.

In early September 2006, GWRS sent out a self-mailer to a targeted group of 500 active participants. The audience was defined as those who either had 100% of their balance in the default fund or those who had elected only two investment options and had more than 80% of their balance in the Money Market fund. (Balance of 80% used instead of original 40% to narrow the scope of participants contacted.)

A direct mail piece was sent to a small sampling of these targeted participants to determine if this would be enough to lead them to take action and reallocate their account balance. This test group would determine whether or not the campaign would be sent out to a larger target group.

As of October 3<sup>rd</sup>, three of the 500 targeted participants had made asset allocation changes to their existing balances. The low response is consistent with industry reports, which indicate that employees are not comfortable making their own investment decisions in their employer sponsored retirement savings plans and seem interested in receiving advice and investment management for their accounts.

In light of the WDC's results related to this project, GWRS believes the WDC Board might want to explore adding an advice tool to the WDC Program, such as Reality Investing. Reality

Investing is a behavior-based approach that provides investment advisory tools and services based upon the level of involvement the participant desires in managing their account.

GWRS has developed and successfully implemented Reality Investing to address the needs of participants who are looking for a more “advice”-driven solution to asset allocation. If the WDC Board or Department is interested in learning more about this service and the successful results other large plans have experienced, we would be happy to set up a time to demonstrate the benefits of this service.

Shelly, GWRS believes this initiative is very important. Additionally, from the lack of participant action taken in response to this mailing, it appears participants are looking for a more guided approach to managing their assets.

Please let me know if you have any questions or would like additional information.

Sincerely,

A handwritten signature in cursive script that reads "Sue A. Oelke" followed by a circular mark.

Sue A. Oelke  
Regional Director

SO:pah

# WDC Vanguard Money Market Default Fund Marketing Strategy Results



**Great-West**  
RETIREMENT SERVICES™

The Power of Partnering<sup>SM</sup>



## Goal

Launch a targeted marketing campaign with multiple touch points that is intended to get WDC participants who defaulted into the Vanguard Money Market fund after the elimination of the Janus and T. Rowe funds to reallocate their account balance into the appropriate Vanguard Target Retirement fund.

## Reallocation Strategies

- » Dedicate an article in the 2<sup>nd</sup> quarter newsletter that reminds participants of the fund change that occurred and provides education on why it may not be a good idea to have their entire account balance allocated to the Money Market fund
- » Send out a targeted email to a sample of 500 participants who defaulted into the Vanguard Money Market and are currently invested in only the Money Market fund or are invested in two funds but have more than 40% of their assets in the Money Market fund
- » Send a targeted mailing that mirrors the messaging from the email to the same audience segment as part of the effort to reach this group using multiple communication channels.

## Reallocation Strategy 1: Newsletter

- » Audience: All plan participants
- » Timing: Drop in the mail approximately July 24
- » Communication Channel: Quarterly statement
- » Measurement: Reallocations from the Money Market fund over a one-month period following the delivery of the newsletter

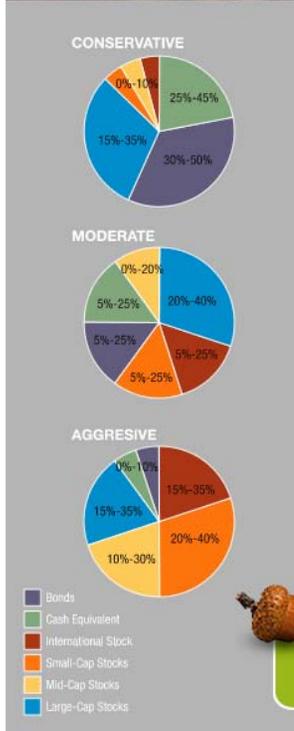
The intent of this article is to remind people of what occurred when the Janus and T. Rowe funds were eliminated. In addition, the article will include third-party validation as to the importance of having the right asset allocation mix in order to reach your retirement goals. It will direct them to the Web site or tell them to call their local representative to make changes.

## Reallocation Strategy 2: Email

- » Audience: A sample of 500 participants who are currently invested in only the Money Market fund or are invested in two funds but have more than 40% of their assets in the Money Market fund
- » Timing: Send out on August 7
- » Communication Channel: Internal email systems
- » Measurement: Number of reallocations from this audience over a one-month period following the delivery of the email

We want to make it as simple as possible for participants to reallocate. The email will include education about the target Maturity funds and explain how easy it is to achieve asset allocation and diversification using these options. The email will advise them to call their local representative and also give them the option of going to the WDC Web site to make an asset allocation change will be included.

# Email Sample



Since the elimination of the T. Rowe Price and Janus funds, your investment has defaulted into the vanguard fund. That means your missing out on the wide variety funds that are available to you. And variety, as you know, is not only the spice of life, but also one of the keys to smart retirement planning? In investment terms, variety goes by the name of "asset allocation," and it offers one of the best ways to make sure your account is working its hardest to make your retirement more comfortable.

**Can't see the forest through the trees?**  
So what's the best approach to asset allocation? The answer is different for everyone, and it depends on the following factors:

- **Your risk tolerance** – whether you're a conservative, moderate, or aggressive investor
- **Your investing window** – how much time you have to invest before you retire
- **Your goals** – how much you need to support the retirement you want

Choosing the right investment mix doesn't have to be a tough nut to crack. Your plan offers tools to help you find the answers to these questions and develop the optimum asset allocation strategy for your unique situation.

**Ready to mix it up?**  
Log on to the WDC Web site at [www.wdc457.org](http://www.wdc457.org), or call (877) 457-9327 and select option 2 to find out more on putting asset allocation to work for you.

## Reallocation Strategy 3: Targeted Mailing

- » Audience: The same 500 people who received the email
- » Timing: Drop in the mail on August 21
- » Communication Channel: U.S. Postal Service
- » Measurement: Number of reallocations from this audience over a one-month period following the delivery of the mailing

In an effort to reach the target audience through several different channels, and direct mail that mirrors the email will be sent to the target groups homes. Like the email, it will advise them to call their local representative and also give them the option of going to the WDC Web site to make an asset allocation change will be included.

# Targeted Mailing Sample



Since the elimination of the T. Rowe Price and Janus funds, you've investment has defaulted into the Vanguard fund. That means your mixing out on the wide variety funds that are available to you. And variety, as you know, is not only the spice of life, but also one of the keys to smart retirement planning? In investment terms, variety goes by the name of "asset allocation," and it offers one of the best ways to make sure your account is working its hardest to make your retirement more comfortable.

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Choosing the right investment mix doesn't have to be a tough nut to crack. Our plan offers tools to help you find the answers to these questions and develop the optimum asset allocation strategy for your unique situation.

**Ready to mix it up?**  
Log on to the WDC Web site at [www.wdc457.org](http://www.wdc457.org), or call (877) 457-9927 and select option 2 to find out more on putting asset allocation to work for you.

A diversified portfolio can potentially help you reduce risk by spreading your contributions among different asset classes. While you may experience a decrease in one investment's performance, it is unlikely that all your investments will decrease at the same time because they are diversified into several different investment types.

**CONSERVATIVE**

Stock	10%	25%-40%
Cash Equivalent	10%	20%-30%
International Stock	0%	0%
Small-Cap Stocks	0%	0%
Mid-Cap Stocks	0%	0%
Large-Cap Stocks	0%	0%

**MODERATE**

Stock	20%	30%-40%
Cash Equivalent	10%	10%-20%
International Stock	5%	5%
Small-Cap Stocks	5%	5%
Mid-Cap Stocks	5%	5%
Large-Cap Stocks	5%	5%

**AGGRESSIVE**

Stock	40%	30%-40%
Cash Equivalent	15%	10%-20%
International Stock	10%	10%
Small-Cap Stocks	10%	10%
Mid-Cap Stocks	10%	10%
Large-Cap Stocks	10%	10%

† See your financial advisor for more information on asset allocation. The information provided is for informational purposes only. It is not intended to be a recommendation or offer of any financial product.

## Results of Project - Overview

- » Article included in second quarter newsletter.
- » Due to lack of e-mail addresses, no contact was made through e-mail.
- » Targeted group\* of 500 active participants received self-mailer in early September, 2006.

\*Test group included participants with 100% of balance, or only two investment options and more than 80% of balance, (80% used instead of 40% to provide the smaller target group) in Vanguard Money Market Default Fund to evaluate the value of this type of contact.

## Results

- » For the period of September 15 through October 3, only three for the 500 participants contacted made an asset allocation change to their existing balance.
- » Results show that direct mail is not the most effective means to achieve action relative to this particular topic.
- » Many studies and surveys indicate that people do not diversify because they do not understand basic investment principals.
- » Individual appointments are not possible for every participant.
- » Participants want more assistance in managing their employer sponsored retirement savings plans.