SVIA STABLE TIMES

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Chairman Miller's 401(k) Fee and Disclosure Bill Garners Disapproval from Retirement Provider and Plan Sponsor Groups

By Gina Mitchell, SVIA

A funny thing happened when Congress went into recess. Plan sponsor groups moved away from polite, diplomatic comments on Congressman George Miller's (D-CA) legislation, The Fair Disclosure for Retirement Security Act of 2007 (H.R.3185), to call for a regulatory fix by the Department of Labor.

For example, the Profit Sharing Council of America's (PSCA) Vice President of Governmental Affairs, Ed Ferrigno, initially said that, "PSCA agrees with the spirit of the bill, there is a need to increase fee transparency at the plan sponsor and participant levels," (and adding that PSCA does have serious concerns about specific provisions of the bill). By the August recess, Ferrigno was quoted as saying, "PSCA believes that any Congressional action is premature until the Department of Labor completes its structured and disciplined promulgation of fee disclosure regulations…H.R. 3185 violates the principles PSCA enumerated in its comment letter (The Department of Labor issued a request for information on 401(k) investment information and fees in April) to the Department—simplicity, cost sensitivity, and flexibility."

In August, even the Investment Company Institute's President, Paul Schott Stevens, felt compelled to caution, "We urge the House Education and Labor Committee to proceed carefully as it considers specific changes to the 401(k) disclosure regime." The ERISA Industry Council's (ERIC) President, Mark Ugoretz, says, "While Congressman Miller's bill as introduced responded to a number of ERIC's concerns, ERIC believes that the Department's project on fee disclosure will lead to a regulation that will provide relevant information and better address the issue than a legislative body." Further, the SPARK Institute released a statement calling Miller's bill, "counterproductive." That's blunt talk for Washington, especially on the Miller bill, since Congressman Miller chairs the Committee on Education and the Workforce, which has jurisdiction on all retirement issues.

What seems to have these retirement policy groups trusting in the Department of Labor is more than the fact that a Republican Administration tends to be receptive to business concerns. It is also two bothersome provisions in the bill that would require plan administrators to:

- Individually list every service fee assessed against a participant's account, and
- Offer at least one lower-cost, balanced index fund as an investment option.

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Debate with Department of Labor Continues on Stable Value as a QDIA Safe Harbor

By Gina Mitchell, SVIA

The Department of Labor (DOL) has delayed the release of final regulations on qualified default investment alternatives (QDIA) as the debate on whether to include stable value funds as a QDIA continues.

So far, we know that the proposed regulations took an odd approach by prescribing three types of investments that the Department considered a QDIA—balanced funds, target-date/lifecycle funds, and managed accounts. The approach was odd for two reasons. Until the proposed regulations, the Department had refrained from dictating a particular type of investment for retirement plans. Instead, it provided direction through guiding principles or characteristics of investments it felt appropriate for ERISA-governed plans. Finally, from a stable value perspective, the approach was also odd because it excluded stable value, which has long been considered a de-facto safe harbor by most investors.

Stacking the Deck

One might say that the deck is stacked against stable value, since many of the Department's assumptions regarding the safe harbor are problematic and, when it comes to stable value, just plain wrong. Stock returns are assumed to have a 6.7 percent premium even though DOL's own peer review calls for a more conservative equity premium, and stock gurus like Jeremy Siegel, author of *Stocks for the Long Run*, rec-

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Chairman Miller's Bill

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Plan sponsor groups have expressed serious concerns about listing every fee charged to a 401(k) participant's account. ERIC's Ugoretz says that the focus should be on fees that affect investment returns. The American Benefits Council's (ABC) Legal Counsel for Retirement Policy, Jan Jacobson, says that ABC is concerned that some participants may focus solely on price tags rather than broader criteria such as the risk level of the investment, historical returns, and the types of investments being purchased, such as active investing, which may carry a higher price tag than passive investing. She also urges flexibility in the way that fee information is given to participants to allow plan sponsors to provide fee information in ways that participants will understand, which could mean various formats such as a representative calculation or simply reporting fees through paper reports or on the Internet. Yet other groups such as the American Society of Pension Professionals and Actuaries (ASPPA) call for uniformity in reporting fee and expense information.

Strong objections have been raised to the Miller bill's mandate of at "least one lower cost, balanced index fund" as the preferable camel's nose under the tent. One of the hallmarks of ERISA legislation and regulation has been the bias against investment mandates. If direction is needed, legislation and regulation should merely provide general principles or broad investment characteristics. Now, however, the Department of Labor may have opened the door to such mandates when it deviated from the "principles" approach in the proposed regulations for qualified default investment alternatives by specifying three types of investment for the safe harbor: balanced funds, target-date or lifecycle funds, and managed accounts.

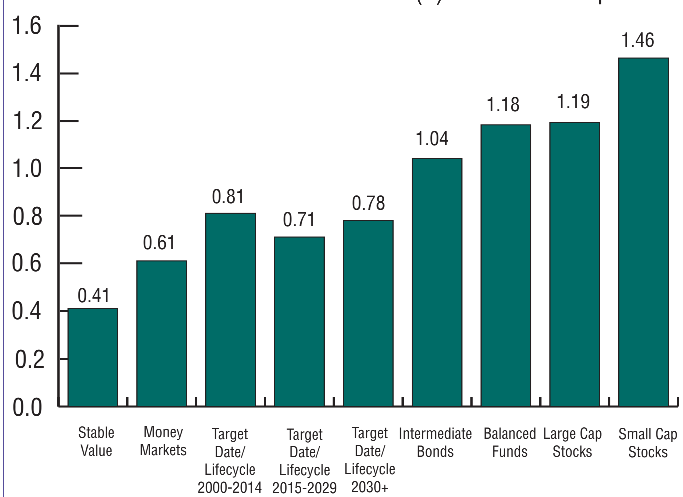
The bill would also require:

- Plan administrators to clearly identify the name, risk level, and investment objective of each available investment option; identify historical returns and fees on each investment option; and specify where plan participants can obtain additional plan and investment information.
- Service providers to disclose to plan sponsors all fees that 401(k) participants will be charged and outline any conflict of interests that service providers may have.
- The Department of Labor to annually review compliance with these disclosure requirements and refer violations of the law to the Securities and Exchange Commission and other enforcement agencies.

With nearly 50 million Americans invested in 401(k) plans, it is no wonder that the potential impact that fees can have on 401(k) balances is a priority for both Congress and the Department of Labor. The General Accountability Office recently reported that a one percentage point difference in fees can reduce retirement benefits by nearly 20 percent. Congressman Miller has been joined by the Chairman of the House Committee on Ways and Means, Congressman Charles Rangel (D-NY), in promising hearings on 401(k) fees this fall. Labor Assistant Secretary Bradford Campbell, who heads the Employee Benefits Security Administration, says fee disclosure is a top priority for the Department and that "We are currently working on several regulatory initiatives focused on improving the transparency of fee and expense information for participants and plan fiduciaries."

Because of the impact on retirement savings and wealth creation, one thing is certain: 401(k) fees and their related disclosure will continue to be a major issue for plan sponsors, Congress, and the Department of Labor. SVIA

Stable Value Is Cost Effective 401(k) Investment Option



Sources: Average expense ratios are from Morningstar except for stable value. Stable value expense ratios are from SVIA Stable Value Manager Fees Survey. Morningstar classifies balanced funds as moderate asset allocation funds.

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Editor's Corner

Opportunity – It Doesn't Always Come Knocking

By Robert Whiteford, Bank of America

"Opportunity is missed by most people because it comes dressed in overalls and looks like work."

Thomas Edison

This month one of our articles in entitled "Collective Funds Fuel Growth in Stable Value." I'm pleased to see that the Editorial Board is highlighting opportunities for future growth. There really are new opportunities for stable value, but they cannot be developed without some hard work. I challenge the members of this organization to take a closer look at the accounting rules that govern stable value. I think that the regulations may accommodate applications that were passed over previously or that in some cases are actually being incorporated by only a few stable value funds already. I am stating the obvious when I say that nobody likes to risk their own time and resources so that their competitors can benefit at no cost to themselves. That is why it is not surprising to find that when a new application is uncovered, it often takes some time before it becomes widely known. You may also find that there are new fields that offer fresh opportunities within traditional defined contribution plans, and possibly in other benefit plans. Stable value's risk-reducing features do not always have to be limited to pension savers.

I applaud the asset managers who have started to use stable value funds as the fixed income component of asset-mixed funds. They are providing a better investment for plan participants. Of course, this is difficult to achieve when a plan sponsor has chosen an existing asset-mixed fund. But for those trustees who individually select the best fixed income and equity managers themselves, this is an option—and one that adds true value.

I am curious to know whether the members of the SVIA have an opinion on Other Post Retirement Benefits (OPEBs) as a candidate for stable value funds. As many of you already know, OPEBs are essentially non-pension retiree benefits, such as medical, dental, life insurance, and disability. Funding for these benefits can take two forms, one of which may qualify for stable value accounting. As with the pension sector, OPEB accounting has evolved rapidly. I am not aware of any overt requirement to fund OPEBs; however, many employers who provide these benefits to their retirees will soon find it necessary to reflect them in their financial statements. Liabilities will be shown on the plan sponsor's balance sheets, while expenditures and amortized funding shortfalls will be recorded on their income statements. The pressure from employees, the rating agencies, and the media, to remedy any funding shortfalls will almost certainly rise—and quickly.

I hope that we do take the time and expend the energy to see whether we can help someone by developing this opportunity—or any of several others. Sometimes it just takes some work to open the door to opportunity.

SVIA's Eleventh Annual Survey Highlights Investment Policy Covering $413 Billion in Stable Value Funds

By Gina Mitchell, SVIA

SVIA's Eleventh Annual Stable Value Fund Investment and Policy Survey provides an overview of how $413 billion in stable value funds are managed for more than 110,000 plans covered in the survey. The survey takes a broad look at the major components of stable value fund investments covering the four major investment management sectors: external investment management, in-house management by a plan sponsor, bank and investment commingled pools, and life company full service.

Here are just a few highlights:

- The distribution of assets among management segments changed slightly: external management represented 46 percent; pooled funds, 29 percent; life company full service, 22 percent; and in-house, 3 percent. The 2005 distribution was external management, 44 percent; pooled funds, 31 percent; life company full service, 22 percent; and in-house, 3 percent.
- Assets grew slightly, from $397 in 2005 to $413 billion in 2006, despite a decline in survey participation in the in-house and life company full service segments.
- The overall net return for stable value funds rose to 4.54 percent in 2006, from 4.44 percent in 2005. All management segments reported modest increases in net returns compared to 2005, as the graph illustrates.
- Credit quality remained relatively unchanged, with survey participants reporting AA or better, on average, using both S&P and Moody ratings.
- Average duration shortened in 2006 to 3.18 years from the previous year's 3.28. While all management segments reported shorter durations in 2006, bank and investment companies reported the shortest average duration of 2.76, with external managers at 2.95. Life company full service had an average duration of 4.09, while in-house was 4.17 years.

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Highlights from SVIA's Eleventh Annual Stable Value Fund Investment and Policy Survey

	as of 12/31/06					as of 12/31/05				
	Total	External Mgmt.	In-House Mgmt.	Bank and Invest. Co. Pools	Life Co. Full Service	Total	External Mgmt.	In-House Mgmt.	Bank and Invest. Co. Pools	Life Co. Full Service
Stable value contract allocation (% of total portfolio)										
Cash or short-terms	3.22%	3.93%	1.73%	4.70%	0.00%	2.20%	2.69%	4.12%	2.98%	0.00%
Traditional GICs/BICs	6.67%	6.30%	32.73%	8.55%	1.43%	6.74%	6.87%	31.19%	8.65%	0.76%
General Account IPG or similar vehicle	22.23%	4.83%	7.77%	0.00%	89.90%	21.79%	0.00%	11.93%	0.00%	95.15%
Wrapped buy & hold assets	4.84%	1.45%	1.46%	14.24%	0.00%	7.20%	13.76%	0.77%	4.06%	0.00%
Wrapped actively managed evergreen assets	54.20%	76.02%	49.69%	61.16%	0.00%	53.01%	72.83%	46.13%	62.60%	0.00%
Wrapped assets managed to a fixed horizon	6.40%	6.07%	0.00%	10.63%	2.39%	7.36%	1.79%	0.32%	21.11%	0.00%
Assets with separate account wraps	1.55%	0.00%	4.97%	0.08%	6.28%	0.92%	0.85%	3.80%	0.00%	4.09%
Market-valued assets	0.83%	1.40%	0.00%	0.64%	0.00%	0.08%	0.00%	0.00%	0.25%	0.00%
Other	0.05%	0.00%	1.65%	0.00%	0.00%	0.69%	1.21%	1.74%	0.35%	0.00%
% of fund globally wrapped	60.96%	85.32%	40.85%	70.66%	n/a	51.10%	69.74%	39.59%	64.27%	n/a
Risk participation (% of portfolio)										
Non-participating	17.80%	8.83%	57.70%	12.44%	38.41%	15.50%	9.42%	56.44%	10.90%	29.00%
Participating for asset experience only	3.53%	6.78%	0.00%	1.41%	0.00%	2.61%	5.20%	0.00%	1.20%	0.00%
Participating for all experience	68.33%	66.51%	42.30%	79.02%	61.59%	69.33%	68.00%	43.56%	71.50%	71.00%
Hybrid	10.34%	17.88%	0.00%	7.31%	0.00%	11.81%	17.38%	0.00%	14.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.74%	0.00%	0.00%	2.40%	0.00%
Fund asset allocation (% of portfolio)										
Cash or equivalents	5.36%	5.85%	7.01%	7.51%	1.29%	4.01%	5.98%	1.18%	3.62%	1.10%
Treasuries	11.25%	13.32%	7.44%	8.90%	10.52%	8.45%	12.76%	6.31%	8.67%	0.00%
Agencies	3.01%	2.75%	1.83%	2.93%	3.84%	4.47%	5.52%	2.29%	6.07%	0.50%
Traditional GICs	7.19%	5.93%	38.32%	8.31%	0.00%	7.03%	7.33%	36.05%	8.48%	0.00%
Asset-backed securities	15.00%	14.23%	21.32%	13.25%	4.11%	12.09%	15.39%	2.79%	14.64%	3.40%
Mortgage-backed securities	23.89%	30.27%	2.58%	28.62%	18.06%	24.21%	25.27%	17.08%	24.36%	23.00%
Commercial mortgage-backed securities	16.64%	11.86%	10.56%	14.48%	7.24%	8.71%	8.93%	1.81%	12.48%	4.00%
Publicly-traded corporate bonds	11.35%	12.09%	5.20%	13.45%	30.29%	16.59%	11.79%	11.90%	16.40%	27.00%
Private placements	2.61%	0.69%	1.03%	0.41%	7.86%	2.54%	0.63%	3.53%	0.23%	9.40%
Commercial mortgages	1.72%	0.20%	2.55%	0.00%	9.76%	2.70%	0.61%	6.74%	0.00%	10.00%
Other	1.98%	2.81%	2.16%	2.14%	7.03%	8.99%	5.30%	10.32%	5.05%	21.60%

Survey Highlights

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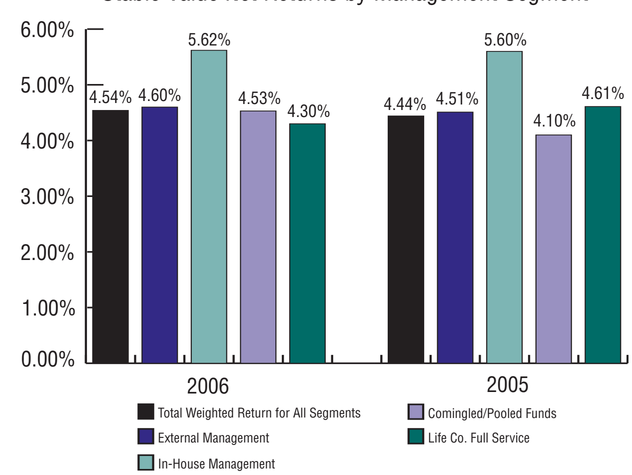
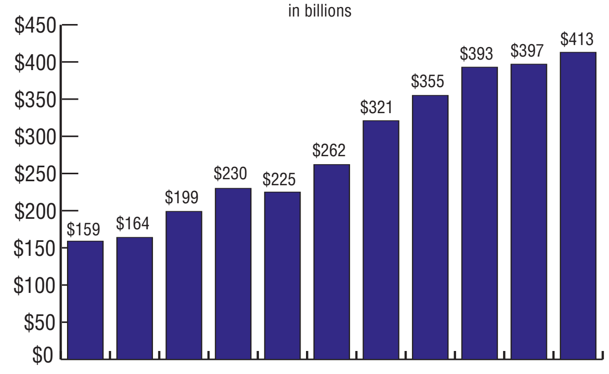
While the product allocation continued to vary widely based on manager segments, the survey found the overall average allocation in 2006 for stable value contracts was 3 percent to cash, 29 percent to GICs and general account products, and 67 percent to wrapped assets. When comparing 2006 and 2005 allocations, modest increases in allocations to cash and GICs and general account products are found. Additionally, the use of global wraps increased to almost 61 percent in 2006, compared to 51 percent in 2005. Modest changes occurred in the underlying portfolios of global wraps, with slight increases in allocations to cash, treasuries, asset-backed securities, and commercial mortgage-backed securities, with slight decreases in allocations for the other asset allocation categories.

Slight changes in contract risk participation were found in 2006. Allocations to non-participating contracts grew to 17.8 percent from15.5 percent in 2005. Similarly, contract participation for asset experience only grew from 2.61 percent to 3.53 percent. Allocations to contract participation for all experience declined slightly to 68.33 percent from the previous year's 69.33 percent. Hybrid contracts decreased to 10.34 percent, compared to the previous year's 11.81 percent. SVIA

Stable Value Net Returns by Management Segment



Stable Value Assets
in billions



Sources: SVIA First through Eleventh Annual Stable Value Fund Investment and Policy Surveys

Stable Value as a QDIA Safe Harbor Debate Continues

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ognize the equity premium should be 2 to 3 percent. While the equity premium is overstated, stable value returns are underestimated, since they are assumed to be equal to cash. The Department's cash assumptions for stable value ignore the intermediate bond-like return that stable value delivers without the associated volatility of bonds and the fact that stable value portfolios consist of diversified bond portfolios with a wrap or financial assurance against interest rate fluctuations.

Further, the proposed regulations simplistically and incorrectly use age as an approximation for risk tolerance. The proposed regulations also ignore variability of rates of return and their impact on retirement wealth creation. Lastly, the proposed regulations are based on capital asset management and behavioral finance theories, which continue to develop and evolve. In *Capital Ideas Evolving,* financial historian Peter L. Bernstein highlights the gap between the theory and practice of the Capital Asset Pricing Model (CAPM), which provides a foundation for the Department's safe harbor proposal. Berstein says,

"In today's world of investing, the Capital Asset Pricing Model (CAPM) has turned into the most fascinating and perhaps the most influential of all the theoretical developments described in Capital Ideas. *Yet repeated empirical tests of the original Sharpe-Treynor-Lintner-Mossin CAPM, dating all the way back to the 1960s, have failed to demonstrate that the theoretical models work in practice."*[1]

Debate Likely Decided in the Fall

The final regulations were submitted to the Office of Management and Budget (OMB) for review in mid-July. The OMB has been asked to weigh-in on whether stable value funds should be included as a QDIA. Because of the ongoing debate, it looks like this issue and the release of the regulations will be decided sometime in the fall.

Fight Obscures Issues

Much of the fight obscures the issues. The purpose of auto-enrollment is to encourage savings. As the CRS Report for Congress, "Retirement Savings: How Much Will Workers Have When They Retire?" points out, there is only one true and proven path to retirement security, stating that "…starting to save while young and doing so consistently every year is perhaps the single most effective way to assure that one reaches retirement with adequate savings." If this is so, then why is there any controversy?

The answer is that it matters how you get to retirement with adequate savings. CRS also attests to this point in the conclusion of the report:

"Unfortunately, we cannot safely assume that rates of return over the next 20, 30, or 40 years will be 'average.' In our analysis, we simulated the variability in rates of return through a Monte Carlo process. We found that, although the average annual rate of total return over 30 years on the mixed portfolio of stocks and bonds that we chose for our analysis would be 5.5%, there was a 5% chance that the real rate of return would be 1.7% or lower and a 5% chance that it would be 9.3% or higher. This variability in rates of return is something over which workers have no control, and which will inevitably lead to some uncertainty in retirement planning. While it may be easier for workers to focus on what they are likely to accumulate in their retirement accounts "on average," ignoring the variability of investment rates of return could lead to poor decisions that might be avoided if workers were better informed about the way that variability in investment rates of return can affect their retirement savings over time. A worker who is told that the most likely real rate of return on his or her investments is 5.5% might save more or less than if he or she were told that the most likely real rate of return will be between 1.7% and 9.3%. Both statements are true, but the second more clearly conveys the uncertainty that characterizes any estimate of likely future rates of return on investment."

The Investment Company Institute (ICI), however, has argued that plan participants are better off invested in equities and that equities will achieve higher returns over time. However, these assumptions downplay the trade-offs for that higher return, which is higher volatility and risk of loss. In determining an appropriate QDIA, it is important to consider not just the upside potential but also the potential risks in trying to achieve that upside potential. While equities may perform better over extended time periods, many participants—even employees that go beyond the median five-year employment—may not continue to participate in the plan when the markets are volatile or they experience losses because they have a low risk tolerance and/or concern about significant swings in investment performance. Equities do not always perform better than other asset classes, as the markets earlier in this decade and even as recently as this August illustrated. SVIA believes that plan fiduciaries should be able to take that into account in selecting a QDIA and have stable value as a stand-alone QDIA.

Further, the ICI asserts that ignoring variability or the downside is okay since "safe harbors are designed to protect participants and provide the greatest good for the greatest number." ICI supports this premise with its stochastic simulations comparing returns from a lifecycle fund to that of a stable value fund. The ICI simulations are fundamentally flawed. The simulations ignore and underestimate the impact of negative investment experience and the variability of returns, which CRS warns us not to do.

Based on analysis submitted to SVIA that attempts to replicate the ICI simulations, lifecycle funds produce better returns for someone who begins to save at age 30 in 82 percent of the simulations,

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[1]Peter L. Bernstein, *Capital Ideas Evolving* (New York: John Wiley & Sons, Inc., 2007) p. 161.

Stable Value as a QDIA Safe Harbor Debate Continues

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which means that stable value provides better returns in 18 percent of the simulations. For the bottom decile, the 401(k) average default balance is $147,529 for a stable value fund, compared to $136,798 for a lifecycle fund. In a worst case scenario, the 401(k) default balance is $88,594 for stable value, compared to $37,600 for a lifecycle fund. Total real contributions in 2006 dollars were $130,980 for those who start making contributions at age 30. For the age 30 cohort, lifecycle funds reported 351 losses (savings and returns are less than real contributions), with an average shortfall of $19,375, compared to stable value funds reporting 71 losses, with an average shortfall of $6,599. A summary table of this analysis is provided below to further illustrate these points.[2]

For these reasons, SVIA strongly believes that volatility and variability must be considered in the safe harbor and that stable value should be included. Stable value minimizes variability and provides certainty as a safe harbor since it is the only investment option that focuses on capital preservation and provides consistent, positive returns. Further, when it comes to selecting a specific QDIA, plan sponsors are in the best position to determine if a QDIA safe harbor provides the greatest good for the greatest number for their specific defined contribution plan population. That is why SVIA believes that the Congressional mandate for a capital preservation vehicle and the broad support for stable value by commenters on the proposed regulations support making stable value available as a fourth stand-alone QDIA.

What Remains to be Seen

What remains to be seen is how persuasive these arguments have been with DOL and OMB. While all sides have made their case, the financial markets have also emphasized SVIA's and CRS's concerns about market volatility and variability. Hopefully, the case for stable value as a QDIA has been made successfully to the Department of Labor and OMB, so that stable value will be available in auto-enrollment programs for risk-adverse investors. Stable value as a QDIA provides a safety net for risk-adverse investors and the Department of Labor if any of their assumptions for the safe harbor are wrong. SVIA

Lifecycle Compared to Stable Value Funds Simulation[3]

	Contributions Start at Age 30		Contributions Start at Age 40		Contributions Start at Age 50	
	Lifecycle	Stable Value	Lifecycle	Stable Value	Lifecycle	Stable Value
Average Across 10,000 Paths	$365,713	$199,974	$203,278	$135,868	$100,348	$ 79,544
By Decile						
Top	$813,534	$266,189	$393,717	$173,745	$165,485	$96,136
Middle	$318,414	$196,802	$186,463	$134,353	$ 95,988	$79,050
Bottom	$136,798	$147,529	$ 93,987	$105,576	$ 56,200	$65,268
Worst Case	$ 37,600	$ 88,594	$ 43,999	$ 83,332	$ 27,718	$52,108
Total Real Contributions	$130,980		$99,630		$65,280	
No. Cases with Real Losses	351	71	589	145	1,063	404
Average Short Fall	$19,375	$6,599	$13,660	$3,951	$8,567	$2,729
Percentage of cases SV > Lifecycle	17.8%		22.2%		27.7%	

[2]A discussion of the shortcomings of the ICI stochastic simulations comparing the returns from a lifecycle fund to returns from a stable value fund are discussed in SVIA's July 23, 2007 letter to OMB's Susan Dudley.

[3]This information is summarized from CRA International's Replication and Extension of ICI's Lifecycle versus Stable Value Funds Simulation, which is detailed in the attachments to SVIA's July 23, 2007 letter to OMB's Susan Dudley.

Collective Funds Fuel Growth in Stable Value

By Chris Tobe, AEGON Institutional Markets

Collective investment trusts or pooled funds ("collective funds") combine assets from a variety of qualified plans into one professionally managed portfolio. These vehicles continue to spur growth of stable value in the defined contribution (DC) market, especially with small- and mid-sized plans.

According to a 2007 Stable Value Investment Association (SVIA) survey, of year end 2006 assets of $413 billion in stable value balances in DC plans, $119 billion were allocated to bank collective funds. In a 2005 study, an independent investment research firm reported that of the $2.2 trillion in total 401(k) assets, collective funds accounted for $368 billion, or 16 percent of the total.

The percentage of plans using collective funds also grew from 32 percent in 2003 to 41 percent in 2006, according to Morningstar and Greenwich Associates. The market share of retail mutual funds fell from 65 percent to 54 percent during the same period. A myriad of data depicting the growth of collective trusts is highlighted in a recent white paper by AST Capital Trust, a leading trustee of collective trusts.

One key advantage of collective trusts is that they have lower operating costs than mutual funds because trusts deal only with institutions and not with retail clients. They not only have fewer accounts and less paper work, but there is no need to mail proxies and prospectuses as mutual funds are required to do, as collective trusts are not subject to the Investment Company Act of 1940. According to Hewitt Associates, the median expense ratio of some collective funds can be as much as 35 basis points lower than a similarly styled mutual fund.

"Institutional funds, like collective trusts and separate accounts, are increasingly popular with mid- and large-sized employers as they are significantly less expensive than mutual funds," said Pamela Hess, Director of Retirement Research at Hewitt, commenting in the AST white paper. "A seemingly small number of basis points saved over time can lead to meaningful differences in participant savings."

"Low cost vehicles such as collective funds can help sponsors be better fiduciaries," added Greg Allen, President and Director of research at Callan Associates, in the same AST report. "The fact that collective funds can only be held in qualified plans significantly reduces the possibility of trading abuses in these vehicles…. The fact that hedge funds cannot buy and sell collective funds provides a natural level of protection that can allow for less restrictive trading rules than are necessary in a mutual fund vehicle."

Collective trusts and the stable value balances held within them are poised to grow even more thanks to the 2006 Pension Protection Act and the Department of Labor's proposed 401(k) plan automatic enrollment default investment options. While the proposal excluded stable value as a default option, it included target-date funds, some of which are collective funds. A growing number of the new, mixed-asset products using collective funds include a stable value component.

For two decades, stable value has been a major force in the collective fund universe, and its opportunities for future growth are rising in tandem with the growth of collective funds. As more plans come to realize the advantages of collective funds versus mutual funds in target-date, lifecycle, and balanced options, stable value has the opportunity to capture market share from mutual fund options. SVIA

SVIA Responds to Department of Labor Request for Information on 401(k) Investment Information and Fees

By Gina Mitchell, SVIA

On July 20, the SVIA provided comments to the Department of Labor's April 25 request for information in the *Federal Register* about disclosure of information relating to defined contribution plan investment options and fees. SVIA's comments focused first on all investments in general and then, more narrowly, on stable value assets.

SVIA believes that disclosures both to plan participants and plan sponsors should be provided with succinct, understandable information regarding their investment options and associated fees. However, plan participants and plan sponsors are best served through specific types of disclosure.

For plan participants, SVIA believes that the following information should be provided for all investments. Illustrations provided are specifically for stable value funds.

- Investment objective of the fund. For example, a stable value fund seeks to preserve principal value and provide current income consistent with bonds of a short-to-intermediate maturity.
- Description of the fund's investment strategy. For example, a stable value fund invests in a high-quality diversified portfolio of fixed income securities, with wraps or financial assurances from banks and insurance companies that enable participants to transact at contract value.
- A description of who should invest. For example, investors seeking capital preservation and a competitive yield should invest in stable value. Investors with a short-term investment horizon (less than five years) may also find stable value appropriate, as well as long-term investors seeking to balance the risks of a portfolio containing equities.
- Fund performance. The annual average returns should be provided for the latest period, along with historical returns on a one-, three-, five-, and ten-year basis, if available. SVIA believes that plan participants should be provided returns net of all fees so that participants clearly see what the investment has earned after fees. For a stable value fund, returns net of all fees would be provided by giving the stable value fund's net crediting rate or its current yield net of fees.

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Response to DOL

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- Fees. Stable value funds should disclose to plan participants any fees that subtract from reported gross performance. Examples of these fees would be stable value fund management fees and plan administrative expenses.

Additionally, SVIA believes that plan sponsors should be provided with additional information regarding fees that are commonly considered investment expenses and are therefore subtracted before gross performance is struck. Two such expenses include the cost of the stable value assurances as well as sub-advisory arrangements with respect to management of the underlying assets within a stable value fund. In order to promote the adoption of best practices throughout the industry, the SVIA has created a fee disclosure template that provides for the specific identification of such costs. This fee template is available at www.stablevalue.org/library/feetempl.asp. An illustration using the template is provided.

Based on a 2005 SVIA survey, stable value management fees averaged 0.22 percent for portfolios with assets of up to $100 million, 0.14 percent for portfolios with assets of between $200 to $499 million, and 0.11 percent for portfolios with assets of $500 million and above. These fees can be charged explicitly in the form of a wrap fee or implicitly in the case of a guaranteed investment contract or a general account-based stable value fund. The cost of the assurances required to construct a stable value fund generally range from 0.06 percent to 0.15 percent. Trust and custody expenses generally range from 0.01 percent to 0.03 percent.

"While contributions and earnings increase retirement savings in 401(k) and other participant-directed plans, fees and expenses charged to participants' accounts can substantially reduce that growth. For this reason, it is important that plan participants, particularly those responsible for making their own investment decisions, consider what and how fees and expenses are charged to their individual accounts."

Source: *Federal Register,* Vol. 72, No.79, Wednesday, April 25, 2007, Proposed Rules, Fee and Expense Disclosures to Participants in Individual Account Plans, page 20457.

Illustration of Stable Value Fund Fees

Investment Advisory Fees		Operating Fees	
Stable Value Fund Management	0.10 %	Benefit Responsive Contracts	0.07%
Sub-advisory	0.112%	Trust & Custody	0.024%
Total 0.212%		Total	0.094%

Performance Reporting:	Fees Disclosed:
"Gross" Returns Are Net of All Operating and Investment Advisory Fees Except Stable Value Fund Management Fees	0.212%
"Net" Returns Including Deductions for All Operating and Investment Advisory Fees	0.306%

Looking just at fees or expense ratios, stable value compares favorably to other 401(k) investments as the chart shows. Notably, as the General Accountability Office reports, a 0.10 percent or 1 percentage point difference in fees can reduce retirement benefits by nearly 20 percent. That is just another reason why 401(k) investors choose stable value as a core asset for their defined contribution portfolios. SVIA

SVIA Adopts Key Investment Principles to Increase Understanding of Stable Value Funds

By Gina Mitchell, SVIA

For more than 30 years, stable value funds have played a fundamental role in helping retirement plan participants safely accumulate retirement savings. As the chart shows, stable value funds have long been considered one of three core investment options, along with equities and company stock.

According to SVIA's latest survey, over 110,000 defined contribution plans make stable value available to the more than 25 million participants who have invested $413 billion in the conservative investment option.

While stable value funds have a long and steady history in 401(k) plans, confusion about stable value still exits on various fronts. That is why the SVIA's Board of Directors over the course of a year and a half, and in consultation with the association's broad membership, developed Key Principles for Stable Value Funds. Key Principles provides a quick primer on the basics of stable value funds and outlines broadly the key principles of prudent stable value investment management.
It covers:

- The objectives of a stable value fund,
- How 'stable value' is achieved through guaranteed interest contracts (GICS) and wrapped diversified bond portfolios,
- Characteristics of a stable value portfolio, such as credit quality and currency exposure, portfolio diversification, duration, liquidity, and the use of derivatives,
- The primary formats for stable value: separately managed accounts, commingled funds, and directly guaranteed funds.
- The regulatory structure for stable value funds.

While Key Principles provides a general guide for stable value funds, it also recognizes the diversity of stable value funds and the fact that plan participants benefit from the many different formats and investment strategies used by stable value funds. Importantly, as the paper says, "the appropriateness of a stable value strategy is judged by its ability to deliver safety, liquidity, and return to the plan participants it serves in a manner that consistently meets the stable value fund's stated objectives."

To learn more about Key Principles, please go to SVIA's website, www.stablevalue.org. SVIA