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Why Stable Value? It Works!

This article draws upon SVIA's White Paper, "Why Investors Want Stable Value," in explaining the unique characteristics that draw investors to Stable Value Funds. "Why Investors Want Stable Value" is available in SVIA's Library at www.stablevalue.org

They say that a rising tide lifts all boats. However, when it comes to retirement investing that old axiom has many looking for the dark side or a hole in the silver lining of the stock market's continued rebound. Some might expect that Stable Value funds would pay for equities' newfound gains in the form of outflows chasing strong equity returns. However, it is not a zero sum game.

To put it simply, defined contribution investors invest in Stable Value because it works. In over thirty years of history, Stable Value funds are one of the few asset classes that consistently generate positive returns in all market cycles. In fact, they provide three major benefits to investors:

- *Returns that are generally higher over the long-term than money market funds and cash.*

Stable Value funds outperform money market funds during most market environments. This is

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What's Hot in Chile?

By Rabra Kang, Bank of America

Chile's defined contribution pension system has grown significantly since its inception in 1981. Its development has positively impacted the Chilean society by laying down the foundation to attack old-age poverty and adding depth to Chile's capital and financial markets. Stable Value funds may be the next natural step in Chile's ongoing pension reform. Addition of Stable Value funds would offer several key benefits:

- First, an increased spectrum of funds enhances the power of investment choice and the ability to match investment profiles to individual needs. Currently only two types of funds are offered: a plain fixed income fund and a balanced fund of equity and fixed income investments.
- Second, the reduced volatility of Stable Value products provides a sense of security in reliable income to those approaching retirement age.
- Next, the consistent returns of Stable Value funds can help boost confidence in, and thereby contributions to, the pension system to increase coverage.
- Fourth, the use of Stable Value products will encourage investment managers to diversify their portfolios. This will lead to great added value from asset management.
- Finally, the low volatility and consistent returns can help ease pressure on the government to guarantee a minimum return.

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The German Pension Crisis: It Is No October Fest

By Laura Humber, Bank of America

Over a decade ago, the collapse of the Berlin wall ushered in a new era of cultural change, unity and national pride in Germany. The overwhelming political and humanitarian impact of this transformation stands firmly as one of the World's most defining moments. However, with this wave of change came a series of economic obstacles that remain a very prevalent legacy of Reunification. As the Wall fell and economic unity began, 16 million inhabitants of East Germany flooded into the West German social security system. A system that was unable to fully meet the responsibilities and burdens that come with historic change. Today, one of the most pressing concerns is the $10 billion public pension fund deficit. With the elderly population rapidly increasing and birth rates plunging, all parties involved recognize that the publicly supported Pay-As-You-Go system is no longer a sustainable option. The problem is further exasperated by a slumping German economy and one of the highest unemployment rates in the industrial world. As Germany stands on the threshold of financial crisis, it once again must confront a difficult but necessary period of change.

The cornerstone for this transformation depends upon convincing the German public to switch from a purely collective Pay-As-You-Go system to a capital funded system with individ-

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Canada: Ready for Stable Value?

By Aruna Hobbs, AEGON Institutional Markets

Given Stable Value's popularity in the U.S. market, many firms have started exploring the possibility of promoting Stable Value abroad. Often, this initiative is driven by multinational plan sponsors that wish to replicate U.S.-based investment choices for their employees in foreign countries. Every new country that has been explored, however, has presented challenges. Myriad accounting, regulatory, environmental, and cultural factors have made it difficult to enter these markets in any meaningful way. This article looks at one promising foreign market — our friendly neighbor to the north, Canada.

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Why Stable Value?

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because they can invest in intermediate-maturity fixed income investments, which should provide higher returns than money markets over time. In fact, according to the Hueler Companies FirstSource Separate Account Stable Value Index, Stable Value funds have outperformed money market funds more than 85 percent of the time.[1] An individual who invested in Stable Value Funds in 1987 rather than money market funds received an additional 15 percent cumulative return or approximately one percent more return per year, year after year.[2]

- *Less risk to principal than most bond funds.*

Stable Value funds tend to produce returns over the long-term roughly similar to intermediate-maturity bond funds. Unlike bond funds, however, Stable Value funds do not fluctuate in principal with changes in interest rates. This is because they invest in book value contracts (companion wrapper agreements or guaranteed investment contracts or GICs), which provide protection of principal and accumulated earnings for investors. As a result, the volatility or risk inherent in Stable Value funds is substantially less than that of an intermediate bond fund.

- *Returns less correlated to equities than money market or bond funds.*

Stable Value has a modest correlation with equities, which means that a mix of stocks and Stable Value will improve the risk return tradeoff over a portfolio of stocks alone. And because Stable Value has less correlation to equities than other conservative investments, it is a more effective tool to modulate risk and return in an investor's retirement portfolio than money market or intermediate bond funds.

These three benefits are further highlighted in the following chart.

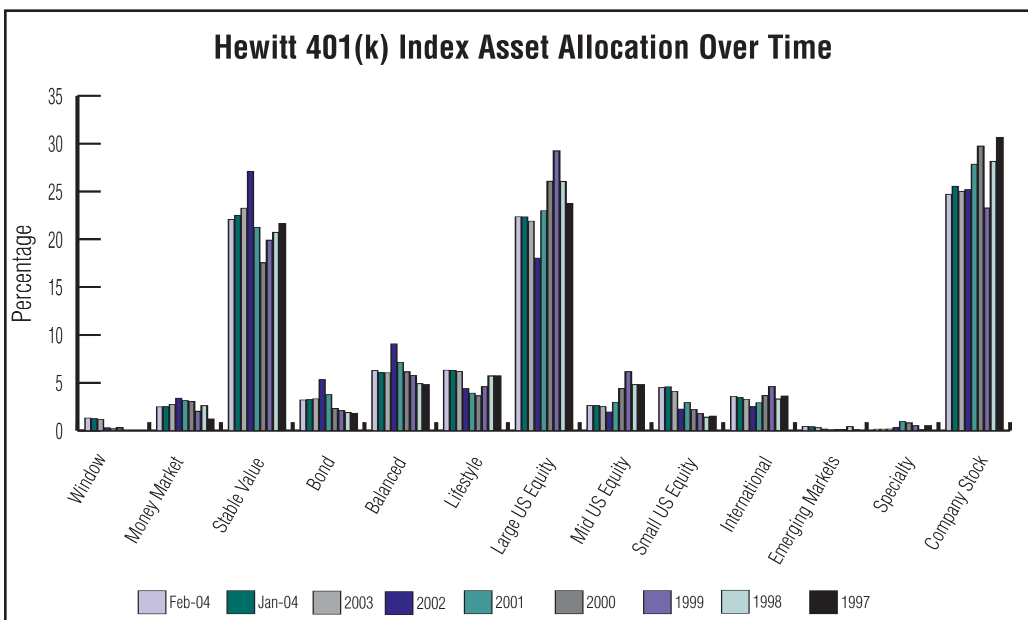
Stable Value funds have provided returns similar to bond funds with less than half the volatility of bonds. Because of these unique characteristics, inclusion of Stable Value funds in the asset allocation process for retirement investing allows investors to construct more efficient portfolios—portfolios that can achieve a higher expected return for a given risk level, or a reduced risk level without sacrificing returns—than is possible with other conservative investment options such as bond and money market funds.

Given our societal trend and economic reality that workers increasingly bear the investment risk and responsibility for retirement savings, an investment vehicle that provides bond-like returns, money market-like volatility and liquidity, and low correlation with equities is a useful tool in helping workers provide for their own retirement security. These attributes are present in Stable Value funds, which defined contribution investors have appreciated in the past and will continue to appreciate in the future. That's why Stable Value funds play an important role in not only helping Americans save for their retirement but also maintaining their financial security during retirement. And that's why despite some rebalancing[4] in response to equity market ups and downs, Stable Value funds are a core investment for retirement savers and retirees. SVIA

Historical Performance Statistics of Various Indexes 1983 to 2002

Index	One Year Annualized Return	Three Year Annualized Return	Five Year Annualized Return	Twenty Year Annualized Return	Twenty Year Annual Standard Deviation	Correlation with S&P 500
S&P 500	-22.10%	-14.55%	-.059%	12.71%	16.91%	1.0000
Lehman Intermediate Government Credit	9.82%	9.63%	7.48%	8.89%	4.99%	0.2769
30 Day Treasury Bills	1.65%	3.78%	4.17%	5.65%	2.07%	0.3751
Stable Value[3]	6.38%	6.53%	6.56%	8.85%	2.34%	0.2020

[1]Hueler Companies, First Source Separate Account Stable Value Index, June 30, 2003. FirstSource tracking 180 Stable Value Funds totaling $71 billion in assets, reports that on an annualized basis, Stable Value Funds have out performed the Lipper Money Market Index from December 1987 to June 30, 2003.
[2]Ibid.
[3]Deutsche Asset management, Deutsche Asset Management Five-Year GIC Index, June 30, 2003. The Deutsche Index was used as an approximate for Stable Value.
[4]Hewitt 401(k) Index™ Observations. Lincolnshire, Illinois.: Observations December 2003 to 1997 and January to February 2004. The Index covers $68 billion invested in 401(k) plans by 1.5 million plan participants.



German Pension Crisis

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ual retirement accounts. Yet if the economy is to rebound, the government believes employer contributions must remain level. As such, the burden of the $10 billion deficit shifts to the workers. They will now be expected to finance the majority of their pensions and manage the risks associated with that task. This is a lofty goal in an environment where psychological barriers need to be torn down, to replace a failing paternalistic system.

The German government is working hard to breakdown this obstacle while simultaneously taking realistic steps to repair its broken system. In 2001, it adopted a major pension reform program, known as the "Riester Reforms." The new program begins with a government commitment to keep the employer contribution rate to pension benefits below 20 percent of gross salary until 2020. In the long-term, the goal is to stay below 22 percent until 2030. In order to balance these benefit cuts, the government has introduced state subsidies, tax incentives and employee rights that promote voluntary retirement savings and investment. Employees now have the ability to demand that their employer provide access to a pension plan that takes contributions from his/her salary. New vesting rules will facilitate the introduction of defined contribution plans, while also making pensions more portable for young, mobile employees. All of these changes set the stage for a system that provides the individual with greater freedom to manage their own future and the government with greater flexibility in managing the pension deficit.

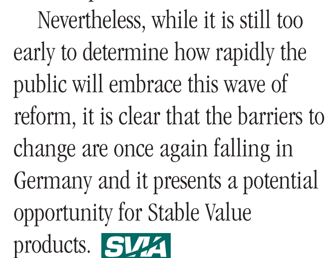
It is in this atmosphere that Stable Value products can start carving out a role in this new era of pension reform. One component of the Riester Plan that lends itself to Stable Value products is a new type of funding vehicle called *Pensionsfonds*. It is a separate legal entity that provides pension benefits for employees on behalf of their employers.

Pensionsfonds are the first tax-qualified funding vehicle not subject to the conservative investment restrictions that apply to German insurance companies. Stable Value products will provide individuals with an opportunity to take advantage of the reduced restrictions on higher yielding instruments, while at the same time lowering portfolio exposure to market volatility. The wrap achieves this by amortizing the gains (losses) over the duration of the fund. It serves as a cost efficient hedging mechanism that provides protection against a decline in asset value. Although to date, Stable Value products have not been approved, if properly marketed, they have the potential to provide a level of security for investors that will be critical in getting individuals comfortable with shouldering this new risk.

Furthermore, although investors will be taking on more accountability for their post retirement future than ever before, it is clear that the German government is not prepared to hand off 100 percent of the responsibility to the public. German companies will also assume risk. All pension products instituted under the Riester Reforms will have mandatory safeguards. *Pensionfonds* will have to guarantee a minimum benefit equal to the initial investment by the employee. Although employees normally have a direct claim against the *Pensionfonds*, in the case of fund insolvency the sponsor company would provide the minimum guarantee. As a result, the government mandates that each company take out an insurance policy with the PSVaG[1] to protect against credit risk. Yet despite the insurance, companies still face the problem of managing market risk. Stable Value products can provide the solution. In what amounts to the purchase of a put option, to protect against losses, and the sale of a call option to the wrap provider, the sponsor company can create a maximum loss floor. The wrap sponsor assumes all risk of the market falling below the initial investment value and the company is shielded from pension liabilities in the case of rapid market deterioration.

Despite the added advantages that a product such as Stable Value can present it is still unclear how receptive the public will be to the Riester Reforms. The shape this new era of pension reform will take has yet to be fully molded. Many critics believe that the Riester solutions are too complex, expensive and poorly constructed. For example, the amount of money that can be contributed to *Pensionfonds* before triggering an income-tax liability for the employee is viewed as too low to adequately fund benefits. Others believe that there are far more tax efficient funding arrangements for employers. As a result, pension policy and products that are relevant today may not be relevant tomorrow. This continued state of flux presents a risk to any outsider attempting to enter the German pension market.

Nevertheless, while it is still too early to determine how rapidly the public will embrace this wave of reform, it is clear that the barriers to change are once again falling in Germany and it presents a potential opportunity for Stable Value products. SVA



[1]Pensions-Sicherungs-Verein aG (PSVaG) is the German equivalent of the U.S. Pension Benefit Guaranty Corporation.

What's Hot in Chile

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Growth of the Chilean Pension Market

Chile's old pension system encouraged early retirement and discouraged labor force mobility. A new model was developed with the goals of (i) improving sustainability through economic and political cycles, (ii) easing fiscal pressures, (iii) reducing old-age poverty and (iv) strengthening financial markets, all of which promote economic growth. Pension reform was necessitated by the unsustainability of its under funded but over-generous defined benefit system. Rather than the aging population problem faced by more developed countries, Chile's old system was plagued by bad management and political manipulation. The new pension model is characterized by mandatory individually capitalized contributions to personal accounts and the ability to choose a private fund manager and the type of pension distribution upon retirement.

While 20 years is too short a time to determine whether the reformation is a success, Chile's progress can be tracked by examining a few metrics, such as growth in pension assets, the extent of pension coverage and the contribution of the pension plan to economic growth.

Pension fund assets increased substantially at an average annual rate of 29 percent to US$37.8 billion in December 2000 from only US$300 million in December 1981. Pension assets are forecasted to grow to over US$175 billion by 2023. The increase in volume is attributable to the mass transfer of workers from the old pension system, a high average investment return, a high ratio of contributors to pensioners and general economic growth (with the resultant positive impact on real wages and employment) during the period. The importance of the pension fund system to the general economy is apparent when looking at its increased weight of 54.6 percent of GDP in December 2000 from only 0.9 percent of GDP in 1981. It is expected to reach nearly 88 percent of GDP by the year 2023.

The degree of coverage, meaning the ratio of contributors to the pension system to the total number of

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those employed, has been less impressive. This leads to concerns that old-age poverty may not have been effectively reduced. The coverage ratio, driven by large-scale transfers of workers from the previous system, peaked at 61 percent in 1997. It leveled off to approximately 60 percent in the following three years. These numbers lag the 86 percent maximum level achieved in the 1970s under the old system. The relatively low coverage ratio under the new pension program is due to the very low proportion of self-employed workers' participating. As of June 2001 self-employed contributors accounted for a mere 2.5 percent of all contributors to the new plan, even though they represented 24.7 percent of total workers in the country.

Labor force mobility was improved through the establishment of personal accounts with investment managers who must place all securities with one authorized institution. Previously, rewards for long service were a hindrance to labor force mobility and to recruitment of new employees. Shifting away from a defined benefit to a defined contribution eased the barrier to changing jobs.

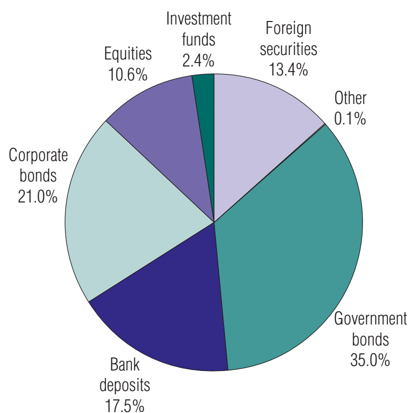
The implementation of the new system eased some fiscal pressure on the state and public budget. The old system ran at a loss. The government was obligated to finance the deficit. The new system funds pension liabilities through mandatory individual contributions.

The creation of the new pension system coupled with social and economic reforms at the time profoundly affected Chile's capital markets. The resultant increased supply of long-term funds and increased liquidity of the stock market is evidenced by the increase in bond issuers and issuance amounts, the increase in stock listings of registered companies, and the expansion of the mortgage loan market.

While the reforms have brought about much needed improvements for the Chilean society, Chile must still address the limited extent of the plan's coverage. The pension system is accessible primarily to workers in the formal labor sector, which is generally characterized by a higher skill or education level, steady full time jobs, and minimum wages. Stagnant coverage levels are worsened by the shrinking formal sector, resulting in a declining number of potential contributors. The sinking number of active contributors, even within the pool of potential contributors, further adds to the coverage problem. The pension system also excludes the self-employed. Compulsory participation would be difficult to implement without any incentive, since contributions would reduce net income. In addition compliance is difficult to ensure, as the self-employed do not pay income taxes.

Limited contributors and contributions will lead to a limited portion of future retirees receiving adequate pensions. Unless the commitment to contribute is extended to the currently excluded, such as the self-employed, or the share of formal working sector eligible for pension is expanded, the problem of old-age poverty will remain. Other policy options include lowering other barriers to participation in pension systems, educating workers about saving for retirement, and redesigning minimum benefits guaranteed by the government.

Asset Allocation—Chile



As of December 2001
Source: International Federation of Pension Fund Mangement

The Need for Stable Value

Pension plans have not taken advantage of the increased supply of asset classes. Currently pensioners have available a narrow selection of funds with low diversity and high concentration in government bonds from which to choose.

Investment managers are not compelled to diversify their portfolios due to the current method of assessing performance. Fund returns are compared against the industry average return for similar funds. If a manager falls too far below, it must compensate for the difference through reserves. If the manager is unable to pay, the government guarantees a minimum level of return. This creates a herd mentality and limits investment options available to plan participants.

Stable Value wraps will smooth returns and will help investment managers ride out periods of high volatility. This encourages investment managers to strive for value-added portfolio performances that exceed the benchmark. Additionally, investment managers are not motivated to engage in price competition. This results in higher fees and lower total returns on the funds. Better long-term performance through Stable Value wraps may intensify competition and stratify the quality of management.

Costs associated with running the old pension system hurt government finances and jeopardize the potential fiscal benefits of implementing the new system. The new system adds to existing fiscal liabilities by guaranteeing a minimum level of pension and discourages workers from continuing contributions to the fund. Stable Value products provide reliable returns and should reduce fiscal pressure on the government's guarantee. Currently the government guarantees a fraction of average wage as a minimum level of pension, as well as a minimum return on assets if the investment manager's reserves are inadequate. Stable Value products also encourage workers to participate by growing their contributions instead of settling for a minimum pension level. Education of workers and establishment of a benchmark may also help eliminate or reduce the need for the government guarantee.

Relaxing stipulated asset allocations may increase diversification, reduce risks and increase returns. A shift from the current emphasis on local government bonds to a more balanced portfolio of domestic and international bonds and equity, presents opportunities for wealth creation and further development of financial

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Demystifying 457 Plans

By Melanie Mabe, AEGON Institutional Markets

Stable Value managers and providers have typically sourced the majority of their business from the 401(k) retirement plan market. With that bucket being full, managers and providers are looking to alternative sources of business. One sector that has remained largely under the radar is 457 plans, the government-sponsored cousin to corporate 401(k) plans. The purpose of this article is to delineate the differences between 457 and 401(k) plans.

457 Overview

Section 457 deferred compensation plans are "non-qualified" tax deferred plans available to state and local public employees. These plans are voluntary, supplemental, long-term retirement programs that give employees the opportunity to defer receipt of income until retirement or termination of employment. Employees pay taxes when they receive the money, not when they earn it. As such, 457 contributions reduce current taxable income. As in the 401(k) world, 457 plans have an array of options, but, unlike 401(k) plans, there is typically no employer match. Government employees enjoy lucrative defined benefit plans as their primary source for retirement income. This substantial benefit, combined with the lack of employer match in 457 plans, makes 457 plans a secondary priority for many public employees.

Recent Updates

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA), signed into law by President Bush in 2001, was designed, among other things, to make 457 plans more closely resemble 401(k) plans. In some ways, EGTRRA makes 457 plans more attractive to participants. For example, 457 funds are now portable if an employee leaves government employment and enters the private workforce. In addition, the Act provides for an increase in contribution limits to mirror the limits in 401(k) plans.

Another feature of the Act authorizes the pre-tax purchase of service credits. This unique feature enables participants to pull money out of their 457 plan to purchase additional years of service from their defined benefit plan. This purchase will result in a higher defined benefit payout and/or an earlier retirement date for the participant. While this Act could potentially increase cash flow volatility, it has been AEGON's experience that the effect has been minimal.

Fewer, But Stickier, Assets

As of December 31, 2002, 457 plan assets totaled approximately $75 billion (compared to nearly $1.5 trillion for 401(k) plans), according to the 2003 SPARK Marketplace Update. It can be difficult, however, to ascertain how much of this money is invested in Stable Value type products. One obstacle is the variety of products offered in the 457 market, which can include fixed annuities, general account insurance products, and Stable Value funds. In addition, it is difficult to determine how assets in the 457 market are allocated.

One good source of information is the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA), whose members include most state and large city/county 457 plans. NAGDCA compiles a survey every two years of all 457 plans. For the most recent survey in 2001, thirty-seven state governments and forty-four local government members responded. According to the survey findings,

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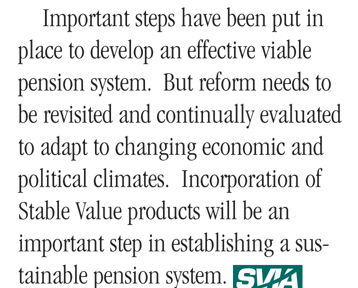
and capital markets and the ability for pensioners to cater their investments to their individual needs.

Governance over the pension system should be tightened and make provisions for Stable Value products. Governance continues to remain weak and to finance the government's deficit through large concentrations of government bonds held by the pensions. Tighter governance would be positively reflected in the quality of investment management and regulations to support economic stability and protect pension value.

Important steps have been put in place to develop an effective viable pension system. But reform needs to be revisited and continually evaluated to adapt to changing economic and political climates. Incorporation of Stable Value products will be an important step in establishing a sustainable pension system.



Recent Stable Value Pooled Fund Trends

By Kerry Clements, Hueler Companies

This article will cover recent trends within Stable Value pooled funds including growth, issuer consolidation, maturity, credit, global wraps and returns. These trends are based on the Hueler Analytics Pooled Fund Comparative Universe of Stable Value (Universe), which represents 80 percent of the pooled fund market. Developed by Hueler Companies, an independent research firm providing data and systems to the Stable Value marketplace, the Universe now comprises 25 funds with assets totaling over $66 billion.

Universe Growth

Quarterly and annual cash flow into Stable Value pooled funds has slowed in relation to the quarterly growth rate that the Universe has observed over the last several years. The Universe data as of 12/31/03 reveals that growth was virtually flat from 3Q03-4Q03 showing a .31 percent increase during the quarter as compared to the average quarterly growth rate over the past five years at 4.40 percent.

Even with the slow down in cash flow during the fourth quarter of 2003, the one-year growth rate was 14 percent. While the 2003 growth rate was still positive, it is lower than the average one year Universe growth rate over the past five years of 20 percent.

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Date	1 Year Growth
12/31/99	30.14%
12/31/00	2.88%
12/31/01	24.35%
12/31/02	23.46%
12/31/03	14.45%

Date	Total Assets ($)	Quarterly Growth
3/31/03	$61.9 billion	7.56%
6/30/03	$63.4 billion	2.30%
9/30/03	$65.7 billion	3.69%
12/31/03	$66.0 billion	0.31%

Based on the 25 participating funds as of 12/31/03.

Recent Stable Value Pooled Fund Trends

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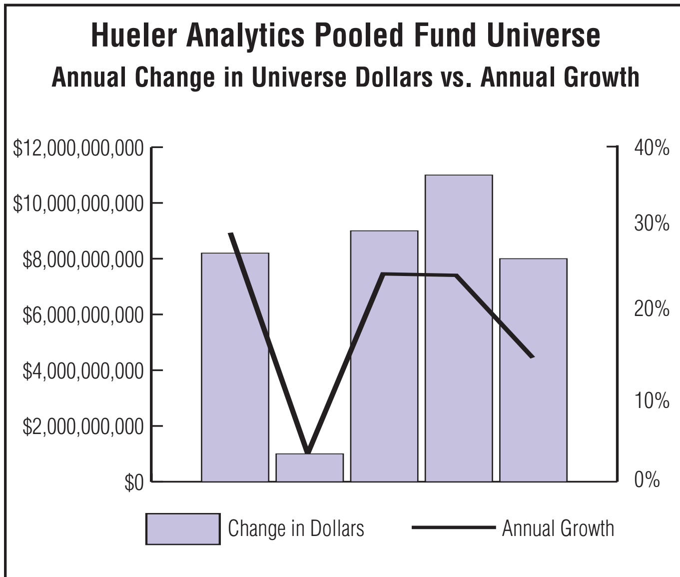


Issuer Consolidation

Since the mid to late 1990's, the demographics of the number of issuers writing business to the Universe has changed. The number of issuers providing Stable Value products to the industry has decreased due to mergers and providers that have exited the business. Based on the historical data tracked in the portfolio holdings of the pooled funds, as of 12/31/98, there were approximately 50 Guaranteed Investment Contracts (GIC) and 34 wrap providers represented in the portfolio holdings within the Universe. Five years later, those numbers are less than half demonstrating the consolidation the industry has experienced. The data shows that eight wrap providers currently wrap approximately 70 percent of all synthetic contracts in the Universe. Of these eight issuers, each of them currently wraps seven percent or more of the total Universe dollars. In comparison, five years ago, there were only three wrap providers that wrapped five percent or more of Universe synthetic assets equating to less than 20 percent of Universe assets.

Maturity and Credit Quality

Maturity is one of the characteristics that have remained relatively static over time. Over the past 10 years, the average maturity of the Universe has been within a range of 2.3 to 2.8 years, although more often than not, within an even tighter band of 2.4 to 2.6 years. The average maturity of the Universe has seen a continuous increase over the last six quarters, and as of 12/31/03 the average maturity was at 2.76 years

Although the average credit quality of the Universe has not changed significantly over the last several years, there has been a definite change in the spread between the average

Average Maturity Range	# Quarters
2.30-2.39	1
2.40-2.49	12
2.50-2.59	18
2.60-2.69	4
2.70-2.79	5

Date	Moody's	S&P	Average Credit
12/31/03	8.99	9.08	Aa1/AA+
12/31/98	9.07	9.38	Aa1/AA+
12/31/93	8.20	9.13	Aa2/AA+

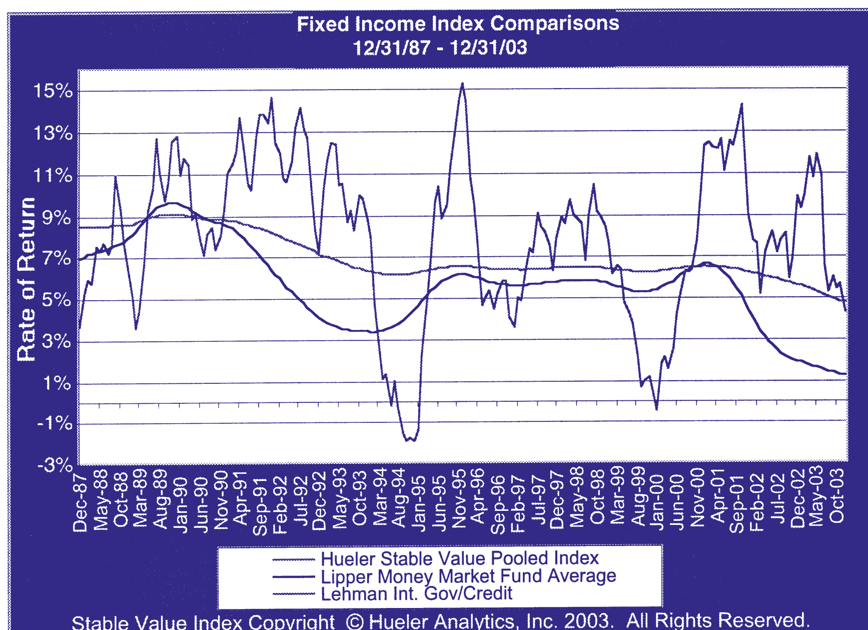
Moody's and S&P credit quality. The credit quality spread of the Universe has dramatically narrowed over time and stayed within a much tighter range, especially within the last four to five years. The combined average credit was Aa3/AA+ in 1992, moved up to Aa2/AA+ in 1993, then up to Aa1/AA+ in 1995 where it has remained ever since that time.

Global Wraps

Since Hueler Analytics started reporting on global wrap contracts in the Universe on an aggregate basis, the total global wrap dollars have grown from 17.6% of the total Universe dollars in fourth quarter 2002, to over 26 percent as of fourth quarter 2003. Almost $7 billion has been added to these contracts during this period and currently 11 of the 25 participating funds have one or more global wraps.

Returns

According to the Hueler Analytics Stable Value Pooled Fund Index, the one-year index return for the period ending 12/31/03 was 4.72 percent as compared to the one-year return of 5.61 percent for the period ending 12/31/02. As illustrated in the Fixed Income Index Comparison graph, Stable Value returns remain strong in comparison to money markets and Stable Value continues to show less volatility than bonds. SVIA



Demystifying 457 Plans

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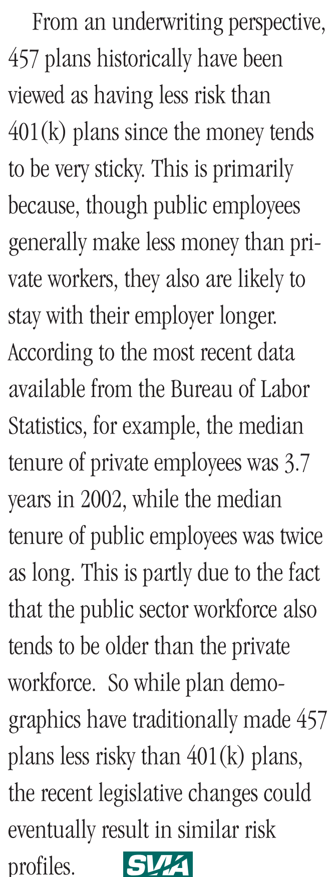
thirty-six percent of 457 plan assets are invested in Stable Value funds and fourteen percent are invested in fixed annuity contracts, for a total of roughly 50 percent in fixed or stable type instruments. From this data, it can be estimated that Stable Value assets in 457 plans total roughly $27 billion while fixed annuity assets total roughly $10.5 billion.

The NAGDCA data also appears to show a migration of assets from fixed annuity contracts to Stable Value funds. Comparing the last two surveys, allocations to fixed annuity contracts fell from 21 percent in 1999 to 14 percent in 2001, while allocations to Stable Value funds increased from 23 percent in 1999 to 36 percent in 2001.



From an underwriting perspective, 457 plans historically have been viewed as having less risk than 401(k) plans since the money tends to be very sticky. This is primarily because, though public employees generally make less money than private workers, they also are likely to stay with their employer longer. According to the most recent data available from the Bureau of Labor Statistics, for example, the median tenure of private employees was 3.7 years in 2002, while the median tenure of public employees was twice as long. This is partly due to the fact that the public sector workforce also tends to be older than the private workforce. So while plan demographics have traditionally made 457 plans less risky than 401(k) plans, the recent legislative changes could eventually result in similar risk profiles. SVIA

Comparison of 457 and 401(k) plans

	457	401(k)
Total Assets[1] (end of 2002)	$75 billion	$1.47 trillion
Stable Value Assets	$27 billion (estimated)	$321 billion[2]
Maximum Deferral	$13,000 in 2004 $14,000 in 2005	$13,000 in 2004 $14,000 in 2005
Employer Match	Typically no	Typically yes
Portability	Rollovers permitted between 457, 401(a), 403(b), 401(k) and regular and Roth IRAs	Rollovers permitted between 457, 401(a), 403(b), 401(k) and regular and Roth IRAs
Loans	Typically no	Typically yes
Hardship Withdrawals	Allowed in specific circumstances	Allowed in specific circumstances
Vesting	Elective employee contributions are fully vested when made; vesting of employer contributions may be delayed	Elective employee contributions are fully vested when made; vesting of employer contributions are typically in 5 years or less
Asset Ownership	All assets of the plan must be held in trust or a custodial account for the exclusive benefit of participants. The assets of a 457 plan are not employer assets and are not subject to the claims of the employer's general creditors.	Individual participant maintains ownership of assets; separate trust fund is required
Tax Penalty	No tax penalty for withdrawing money upon retirement or termination of employment, no matter what age	10 percent penalty on distributions made prior to age 59½

[1]Source: 2003 SPARK Marketplace Update
[2]Source: Stable Value Investment Association

PBGC Reform: An Indicator for Pension Initiatives?

By Gina Mitchell, SVIA

With an April 15th deadline looming, followers of retirement policy watch and wait to see how the PBGC reform debate plays out and what it may foretell for other retirement issues. A shorter legislative session, a Presidential election cycle and a rising federal deficit do not bode well for retirement issues. Layer on top of that, the increasingly partisan nature of recent debates and it is easy to see why most believe little will be done this year. This article briefly highlights the pension issues that will most likely fall under the microscope of Federal legislators and regulators.

PBGC Reform

Despite some cynisim, there are few issues that look as promising for enactment as PBGC reform. The Pension Benefit Guaranty Corporation (PBGC) protects the retirement incomes of all American workers who participate in a defined benefit pension plan by providing a safety net that guarantees that pensions will be paid if the pension plan cannot meet its promises. The safety net or guarantee is funded by premium payments made by all companies who have a defined benefit plan.

PBGC reform enjoys bipartisan support as evidenced by a recent 89 to 6 passage in the Senate and passage twice by the U.S. House of Representatives. It recently passed a major hurdle with the appointment of Senate conferees, which permits the House and Senate to work to reconcile their differences in The Pension Stability Act (H.R.3108).

H.R.3108 replaces the now extinct 30-year Treasury bond rate used in defined benefit pension plan funding with a higher, corporate bond rate. However, the move to conference may also cause the Administration to make good on its veto threat.

PBGC reform contains modifications to the deficit reduction contribution (DRC). The proposed modifi-

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cation lets companies, who were not subject to the DRC in 2000, reduce their contributions to 80 percent of the DRC in 2004 and 60 percent in 2005. The reduced DRC is designed to assist cyclical companies such as the airline and steel companies weather these particularly tough economic times.

A letter from PBGC's Board of Directors: Labor's Elaine Chao, Treasury's John Snow and Commerce's Donald Evans threatens the use of an Administration veto saying, "Specifically, it would be irresponsible to amend the interest rate bill with any additional provisions that would significantly exacerbate systemic pension plan underfunding." PBGC estimates that the change to the corporate bond rate would reduce pension contributions by $80 billion and the change to the DRC would cause another $16 billion reduction.

The Administration wants the DRC to be considered as part of comprehensive pension reform. "Abandoning the DRC without an effective substitute would put workers, other companies and taxpayers at risk," explained Steven A. Kandarian, PBGC's outgoing Executive Director.

Even with a net loss of $7.6 billion and $11.2 billion deficit for single employer pension plans in 2003, Kandarian warns, "PBGC is not in crisis, the financial integrity of the program is at risk," and he calls on Congress, "to strengthen pension funding rules before our problem becomes a crisis."

In a March 11 letter, six Republican Senators echoed the Administration's sentiments and urged conferees to drop provisions that tinkered with the DRC. The six: Senators Peter Fitzgerald (R-IL), John McCain (R-AZ), John Kyl (R-AZ), Don Nickles (R-OK), John Ensign (R-NV), James Inhofe (R-OK), and Craig Thomas (R-WY) explained that, "Replacing the 30-year Treasury rate with a rate based on long-term corporate bonds alone would provide $40 billion of relief per year for the next two years—cutting required contributions by nearly one-fourth, and thereby providing tremendous relief to companies…"

For PBGC reform watchers, will it happen? Will it emerge with the DRC provisions? Will the Administration exercise its veto threat if the DRC provisions remain? All of these questions remain to be answered in an election year cycle in less than a month before companies with defined benefit plans are required to issue premium checks to PBGC.

COLI May Move Finance Bill

Senate Finance Committee Chairman Charles Grassley (R-IA) has expressed optimism that corporate owned life insurance (COLI) provisions in a broad-ranging pension bill may propel passage by the Senate. As Senator Grassley explains, "I think the COLI legislation could drive the (passage) because the insurance industry has kind of been slowed up by the discussion of COLI."

The Senate Finance Committee revised provisions to require that income exclusion for COLI benefits would be contingent upon either obtaining the consent of the insured employee, the insured employee being either an employee within the past year or a key employee, and that benefits are payable to the family, beneficiary or estate of the employee.

The remainder of the bill addresses ENRON bankruptcy problems, such as ensuring that 401(k) participants have the right to diversify company stock holdings and receive more detailed account statements.

What About Advice?

Speaking of the ENRON bankruptcy, what has happened to the Congressman John Boehner's advice legislation? The bill, H.R.1000, was passed by the House, has the Administration's support, and is poised for Senate action. A companion bill, S.1698 was introduced in the Senate by Senator Michael Enzi (R-WY). However, the return of a healthy stock market coupled with concerns about mutual funds may have taken some of the urgency out of this legislation.

Administration Modifies Savings Proposals

The Administration's modified versions of its Lifetime Savings Accounts (LSAs), Retirement Savings Accounts (RSAs) and Employer Retirement Savings Accounts (ERSAs) in this year's budget submission are receiving mixed reviews. While groups such as the Investment Company Institute and American Shareholders Association are supporting the legislation, Congressional pension leaders have been more modest to even negative in their assessments.

Congressman Earl Pomeroy (D-ND) called the President's lifetime savings account proposal, "bad policy, plain and simple." He explains, "LSAs provide tax shelters for the most affluent in this country at the expense of doing nothing to help low and moderate income Americans save. In a nutshell, this proposal is costly and worsens a problem it is supposed to solve."

"I strongly support creating more incentives for long-term savings, especially in helping people save for retirement," says Congressman Rob Portman (R-OH). "The proposal for new RSAs could help address the impending crisis in retirement savings as baby boomers begin to leave the workforce. However, there's a huge difference between Roth IRAs and LSAs…while LSAs promote short term savings, I believe there is a greater need to promote long-term savings."

Congressman David Camp (R-MI) goes so far to say, "The Administration's proposal will erode employer-sponsored plans."

The Administration's proposal limits after tax contributions to LSAs and RSAs to $5,000 compared to $7,500 last year. Additionally, the proposals permit rollovers of 529 educational plans and Coverdell savings plans to LSAs, and Roth and other types of IRAs to RSAs, respectively until January 1, 2006.

Employer Retirement Savings Accounts (ERSAs) consolidates defined contribution plans and employer-sponsored IRAs into a simplified 401(k) plan that permit deferrals up to $13,000.

Cash Balance Plans Resurface as Part of Defined Benefit System Reform

On February 2, the Administration released a cash balance plan proposal that aimed to address concerns over employer conversions from defined benefit plans to cash balance plans. The Administration proposal attempts to eliminate provisions that have been viewed as discriminatory towards longer-term or older employees.

The Administration's proposal would impose a five-year hold harmless period after a conversion to a cash balance plan, where an individual's benefits under a cash balance plan must be equal to or greater to those he or she would have earned under the defined benefit plan. Additionally, the proposal bans "wear away" of retirement benefits so that all workers can benefit immediately after the plan conversion by ensuring that everyone earns benefits after the conversion.

Reaction to the Administration's cash balance proposal is mixed. House Education and Workforce Chairman John A. Boehner (R-OH) said "Our committee will look at reforms to strengthen cash balance plan protections for all workers, and most specifically older workers, as we move forward in crafting comprehensive proposals to reform and to strengthen the defined benefit pension system. We must work to ensure that all employer conversions to cash

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balance plans are fair and equitable to younger and older workers alike."

However, Congressman George Miller (D-CA), the Ranking Democrat on the Committee on Education and the Workforce cautioned, "The pension proposal contains no protections for workers in companies that have already converted to cash balance pension plans. In fact, it may permit employers to play games by using dubious interest rate assumptions in their new plans."

"Most importantly," says Miller, "The proposal provides no guarantee that all employees who would be harmed by a conversion to a cash balance plan would have the right to stay in the company's traditional pension plan until they retire."

Because of court decisions this past summer that said employers violated federal laws in adopting cash balance plans (Cooper vs. IBM Pension Plan and Berger vs. Xerox Corp. Retirement Income Guarantee Plan), employers may lobby Congress hard for guidance rather than wait for the Courts to provide guidance through the judicial process.

SEC Ropes in Defined Contribution Plan in Regulatory Push

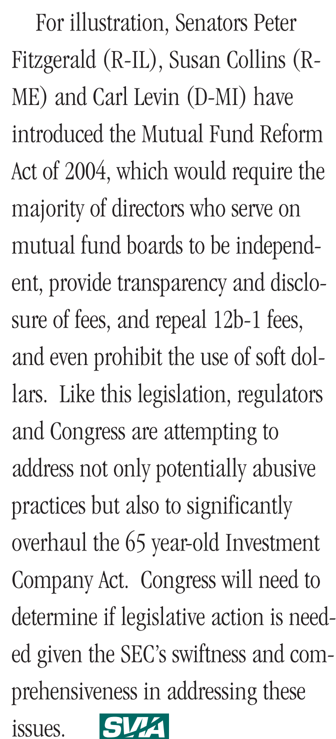
The mutual fund scandals that erupted in 2003 may have the most immediate impact on defined contribution plans due to the Securities and Exchange (SEC) quick and no exceptions response. The SEC has quickly stepped in to address the sundry causes of those scandals matching New York Attorney General Eliot Spitzer's frantic pace.

Most recently, the SEC has proposed regulations that would impose a hard cutoff of 4 p.m. for mutual fund purchases or redemptions to eliminate market timing and late trading. Despite comments from 401(k) sponsors and their advocates that the hard cut off rule will disadvantage the majority of mutual fund shareholders who own shares through their defined contribution plan, the SEC has not made an exception.

The 401(k) community sought an exception to the 4:00 p.m. rule that would permit a retirement plan to submit orders to a designated transfer agent after the deadline if the plan's administrator had adopted adequate precautions to protect against late trading. In fact, the Mutual Funds Integrity and Fee Transparency Act (H.R.2420), which passed the House in an overwhelming 418 to 2 vote in November of 2003, included such an exception for retirement plans.

Defined contribution plans could also feel the impact of SEC actions on a broad array of issues ranging from disclosure of mutual fund fees to the imposition of a mandatory two percent redemption fee for mutual fund investments held less than five days.

For illustration, Senators Peter Fitzgerald (R-IL), Susan Collins (R-ME) and Carl Levin (D-MI) have introduced the Mutual Fund Reform Act of 2004, which would require the majority of directors who serve on mutual fund boards to be independent, provide transparency and disclosure of fees, and repeal 12b-1 fees, and even prohibit the use of soft dollars. Like this legislation, regulators and Congress are attempting to address not only potentially abusive practices but also to significantly overhaul the 65 year-old Investment Company Act. Congress will need to determine if legislative action is needed given the SEC's swiftness and comprehensiveness in addressing these issues.



Competing Funds: "Barbarians at the Gate" or "The Phantom Menace"

By Mark Foley, CIGNA Retirement & Investment Service

Few words can roll more eyes inside the Stable Value community than "competing funds." Or furrow more eyebrows outside it.

Many if not most retirement plan sponsors and providers addressed competing funds long ago. So long ago, in fact, that many may not be sure exactly why they did what they did or whether it still matters. They may be asking themselves, "What exactly are competing funds?" "Why do they matter?", and "How can plans and providers address the issues they raise?" A logical starting point is what competing funds compete with—Stable Value.

Someone once described Stable Value as the closest thing in the investing world to a free lunch. Participants get competitive fixed income returns with the stability of principal associated with money market funds—moderate upside with zero downside. But this economic nirvana may contain the seeds of its own destruction—if not carefully managed.

These seeds bear the innocent name of "competing funds" or, more precisely, "unrestricted transfers to competing funds." Like Stable Value funds, competing funds have moderate upside with zero to low downside.

Money market funds, some short duration U.S. Treasury funds, and other short duration bond funds that respond quickly to changes in short-term interest rates are commonplace examples. These hardly appear sinister. Yet the fault, dear reader, lies not in the funds but in their usage.

The issue arises from the central premise of Stable Value—smoothing the performance of a bond or fixed income portfolio. Rising interest rates make bond prices fall—and vice versa. In a vacuum or in the long run, it's one big ho-hum because everything will be passed through over time.

The real world is not so simple. These ups and downs, if extreme, may create a risk-free moneymaking opportunity for a few particularly shrewd, scheming individuals. The catch is that everyone else gets to pay for it, eventually.

To understand how everyone else pays, let's look at two participants we'll call Peter and Paul. Their 401(k) plan has a Stable Value fund yielding six percent and a money market fund yielding three percent. The money market fund is the "competing fund."

Peter and Paul both have all their money in the Stable Value fund. Life is simple and good.

Suddenly, interest rates shoot up and the money market fund is yielding nine percent. If no one did anything, the change in market rates would gradually be passed through in the Stable Value fund's returns. But, assuming that there are no transaction restrictions, Paul wakes up and says, "Hey, I can make three percent more in the money market fund. Sell! Sell! Sell!" Peter does nothing.

The Stable Value fund pays out Paul's withdrawal at 100¢ on the dollar, even though the bonds it held are only worth, say, 90¢ on the dollar. Behind the scenes, the Stable Value fund has realized an economic loss. The fund may have to pay a lower yield and/or take longer to catch up with the rising rate market. In other words, Peter pays for Paul's windfall.

And that's on a slow day. If Mary joins Paul in pulling out, and then others follow, they may pull the Stable Value fund's return down far enough that it never recovers. The

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Barbarians

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rate gets lower, so more people leave, so the rate gets lower, and so on until, well, Doomsday. This Doomsday scenario or "death spiral" is the kind of thing that scares actuaries out of their skins. However, for investors who stay in the fund, unlike Peter, Paul and Mary, they would not lose their investment of principal and accrued interest. However, their future interest earnings could be lowered by extreme cashouts.

Unsettled underwriters aside, this all matters for three reasons:

- Fairness: With unrestricted transfers, some participants—inevitably the less sophisticated—may get hurt.
- Principle: Allowing unrestricted transfers to competing funds undermines the philosophical premise of Stable Value investments.
- Unadulterated (and reasonable) self-interest: Insurers and banks providing the guarantees could suffer potentially mortal losses in a Doomsday scenario.

Yet all is not lost. Retirement plan sponsors and providers have developed three main approaches to minimize this hazard:

- "Just Say No:" Like any temptation; the easiest way to beat this one is to avoid it entirely. Many retirement plans offer a Stable Value fund as their sole "safe" investment option.
- "Wild, Wild Wash:" The second, and most popular, remedy is to use an "equity wash." Participants cannot transfer directly between competing funds. Instead, those transfers must be "washed" through an equity fund, typically for 90 days. The idea is that exposing the transfer to the stock market for three months turns a risk-free scheme into a nail-biting ride.
- "Transferrus Interruptus:" Some plan providers allow participants to transfer among competing funds in "normal" circumstances. The providers' protection comes from reserving the right to shut down transfers to competing funds at any time.

Do the risks justify what some might consider to be unnecessary red tape?

The bottom line is that letting some individuals hatch this kind of "risk-free" scheme harms other individuals—immediately and measurably. It also puts the entire premise of Stable Value at risk, which could negatively affect society at large.

Stable Value has played a critical role in the growth and success of private retirement plans. No other investment has the same capability to grow and protect individuals' plan balances. Improved individual balances translate directly into improved quality of life in those individuals' retirement years.

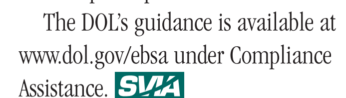
Within the broad Stable Value community, the answer seems clear – unrestricted transfers to competing funds present a very real threat to the financial health and happiness of defined contribution plan participants. Reasonable steps to address that threat may be among the most prudent investments a plan sponsor can make. SVIA

DOL Provides Guidance on Fiduciary Role/Response to Mutual Fund Scandals

By Daniel Lange, Katten Muchin Zavis Rosenman

On February 17, 2004, the Department of Labor (DOL) issued guidance on the role of benefit plan fiduciaries as the allegations in the recent mutual fund scandals unfold. The DOL acknowledged that plan fiduciaries could not have anticipated the current market-timing and late-trading scandals, but the DOL advised that, now that the story has broken, fiduciaries should implement a deliberative process to determine next steps. The DOL indicated that plan fiduciaries should consider the nature of the alleged abuses, the potential economic impact of the abuses on the mutual fund, the steps taken by the fund to ensure that such abuses do not continue, and any remedial action taken or contemplated to make investors whole. The DOL specifically pointed out that if information is not made available voluntarily, a fiduciary should consider contacting the fund directly to obtain the information necessary to make a prudent decision about continued investment in the fund. The DOL also reminded fiduciaries that the ERISA prudence standard will apply as fiduciaries decide whether to participate in lawsuits or settlements related to the recent scandals.

Regarding the possible changes that can be made on a plan level to ensure that participants are not using their plan account to take advantage of so-called market-timing, without making specific recommendations, the DOL stated that "a plan's offering of mutual fund[s]...that impose reasonable redemption fees on sales of their shares," or "plan limits on the number of times a participant can move in and out of a particular investment within a particular period...do not, in and of themselves, run afoul of the 'volatility' and other requirements set forth in the [DOL]'s regulations under section 404(c) [of ERISA], provided that any such restrictions are allowed under the terms of the plan and [are] clearly disclosed to the plan's participants and beneficiaries." Finally, the DOL pointed out that if trading restrictions are imposed on participants, but are not provided for under the plan, then such restrictions could violate ERISA and raise concerns that a "blackout period" has occurred, such that advance notice is required for all affected participants.



The DOL's guidance is available at www.dol.gov/ebsa under Compliance Assistance. SVIA

Results from Quarterly Stable Value Managers' Survey

In its debut, SVIA collected data covering over $250 billion in Stable Value fund assets from 23 managers covering the Third and Fourth Quarters of 2003. The quarterly Internet survey covers assets, annualized returns, credit quality and duration. Assets grew by over $4 billion from the third and fourth quarters of 2003 to $222.4 billion for total Stable Value assets under direct management, which excludes assets that are sub-advised, and $250.7 billion for total Stable Value assets. Additionally, duration and credit quality increased from 2.99 to 3.48 (duration) and 8.14 to 8.26 (credit quality). Stable Value funds reported an annualized weighted return of 5.05 percent for the third quarter of 2003 and 4.87 percent for the fourth quarter of 2003.

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Three primary retirement savings vehicles

According to the most recent information available from Statistics Canada, the government statistical agency, Canadians have accumulated total retirement assets of C$1.15 trillion (approximately USD 859 billion at current exchange rates) in three primary retirement savings vehicles: employer-sponsored Registered Pension Plans (RPPs); individual and group Registered Retirement Savings Plans (RRSPs); and government-sponsored Canada and Quebec Pension Plans (C/QPP). RPPs total 69 percent of Canadian retirement assets; RRSPs (both individual and group) account for 25 percent of the market; and government-sponsored C/QPPs hold the remaining 6 percent.

A closer look at RPPs

RPPs are employer-sponsored plans to which the employer must contribute by law (the contribution limit will increase to $2,000 annually by 2005). RPPs can be offered under either a defined benefit or defined contribution structure. The defined contribution RPP structure (also known as Money Purchase Plans) most closely resembles the primary Stable Value market in the U.S. — employer-sponsored 401(k) plans. Both types of RPPs are registered with the Canada Customs and Revenue Agency. The broad rules and restrictions governing RPPs are similar to U.S. regulations for 401(k) plans. As in the U.S., there has been a gradual shift in Canada from defined benefit RPPs to the lower cost defined contribution RPPs. This shift is driven primarily by the general trend toward downsizing and cost-cutting among Canadian businesses over the last decade. In 2003, according to Mercer, 80 percent of RPPs were defined contribution.

A closer look at RRSPs

RRSPs, first introduced in 1957, are essentially personal, self-directed retirement funds offered by financial institutions such as, banks, insurance companies, or mutual fund houses. Employers can also offer RRSPs on a group basis (in addition to RPPs), which provides individuals with the convenience of payroll deduction and offers some economies of scale. Even if individuals participate in an employer-sponsored RPP, individual and group RRSPs offer supplemental retirement savings benefits, similar to U.S. IRA accounts. For example, annual contributions are tax-deductible (up to a limit scheduled to increase to $18,000 by 2006) and earnings accumulate tax-deferred. RRSPs are frequently invested in mutual funds or in bank products. All registered mutual funds, however, must be marked to market according to Canadian GAAP, with no exceptions. Insurance companies, usually ones with an established local presence, provide some guaranteed options at the individual level similar to the annuity business in the U.S. Manulife, Transamerica Life, and Sun Life are among the more well-known providers.

Investment Issues

The Income Tax Act mandates foreign assets in many of these programs to be limited to 30 percent of the total assets. Generally, U.S. fund companies that have been successful in attracting assets have been those with an affiliate that is domiciled in Canada. Not having a local presence often inhibits providers from entering the market because of currency exposure.

Is there an opportunity for Stable Value?

For Stable Value providers wishing to expand beyond U.S. borders, Canada shows some promise. First, the Canadian retirement market is generally similar to the U.S. DC market, and it is large and growing. The current total asset figure of $1.15 trillion represents nearly a two-fold increase over the $594 billion charted in 1990. By far, the largest share of this total is held in employer-sponsored RPPs, even though their importance has declined somewhat relative to RRSPs since 1991.

Second, based on anecdotal information (some of which is a few years old), Stable Value firms who have tried their luck at entering this market since the 1980s have met with sporadic success—mostly for small pools of money or for specific plans — so there is precedent for Stable Value funds operating in Canada within a DC framework, as we know it domestically. Third, GICs are well known as a savings vehicle in the Canadian retail world.

Other factors, however, appear to mitigate these positives. For example, defined benefit, union and governmental plans dominated the landscape early on; and though this is changing, it has prevented Stable Value providers from establishing a strong foothold in the market to date. Also, the Canadian market is fairly complex from an administrative perspective and tends to be serviced by large, bundled insurance providers ,

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Editor's Corner

By Wendy Cupps, PIMCO

These are certainly "interesting" times – and no I'm not referring to Janet Jackson's infamous wardrobe malfunction or Brittany Spears 24-hour marriage (or was it actually longer than that?)—I'm talking about interesting times in the financial markets. The market, and particularly the fixed income market, has been fascinating everyone as we remain on perpetual watch for signals that the Federal Reserve may normalize (raise) interest rates. But based on the most recent rhetoric, the Federal Reserve appears to want to stay on hold at one percent until they see the fruits of their reflationary efforts, and it looks like that may be a while!

That's not bad a bad thing for Stable Value investors. In fact, few environments really are considered bad for Stable Value, because Stable Value offers many benefits to retirement investors. Stable Value generally provides premium returns over money markets and short-term bonds. With the Federal Reserve in a holding pattern, Stable Value should continue to maintain its healthy premium over these alternatives. Stable Value also enjoys the benefits of less principal risk than longer term bonds should rates move up in response to future reports of job creation and/or inflation. And Stable Value provides diversification and stabilization that provides and anchor to a retirement portfolio that is facing volatile and "interesting" conditions.

In this edition of *Stable Times* we revisit why Stable Value remains a core holding for retirement investing – because it works! We include a review of the trends in Stable Value pooled funds and in Stable Value and funding agreement sales.

Consistent with our objective of addressing broader retirement issues and their implications on defined contribution and/or Stable Value investing, we explore the defined contribution systems in Chile, Germany and Canada and what opportunities may exist for their participants to share in the benefits Stable Value can offer.

In the US we also explore the pension issues that are likely to be in front of Federal legislators and regulators this year, and discuss the differences between 457 and 401(k) plans. And we try to shed some light on why competing funds pose concerns when offered alongside of Stable Value funds.

While I don't expect these stories will make the tabloids, I do think that our readership is likely to find them much more interesting, important, certainly more appropriate in their revelations, and lasting in their relevance!

Snapshot of 2003 Stable Value & Funding Agreement Sales SVIA/LIMRA Survey

By Kathleen Schillo, Hueler Companies

Since 1998, the SVIA and LIMRA International have conducted a joint survey on sales of Stable Value and funding agreement products for the institutional market. Below is a summary of the 2003 survey pertaining to New and Renewal Sales for Stable Value products and Funding Agreements in which 28 companies participated.

Definitions

New Sales: Refers to deposits to new contracts.
Renewal Sales: Includes deposits to existing contracts, which have been put out to bid (and won). Renewal sales also include contracts that have fixed maturities and rollover to a new contract each 3, 6, or 12 months.

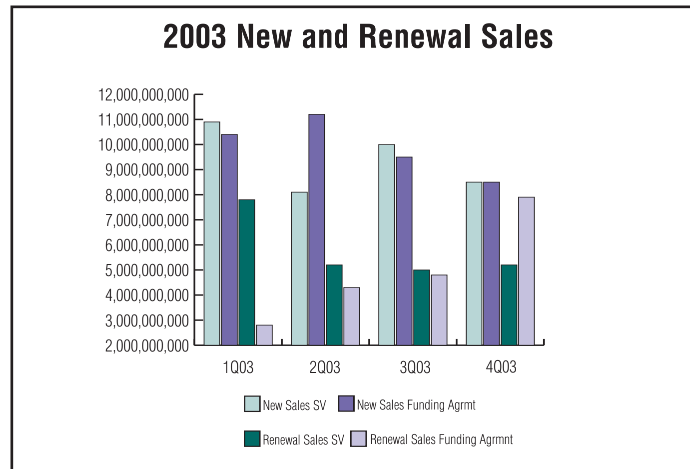
According to the SVIA/LIMRA Survey, Stable Value and Funding Agreement Sales totaled over $119 billion in 2003. As can be seen from the chart below, 65 percent of sales were new sales with the remaining 35 percent constituting renewal sales.

	% of Sales	Dollar Value of Sales
Total New Sales 2003	65%	$77,397,000,000
Total Renewal Sales 2003	35%	$42,263,300,000
TOTAL SALES 2003		$119,660,300,000

When looking at the numbers in more detail, it is apparent that New Funding Agreement Sales made up the majority of the sales at 33 percent with New Stable Value Sales following closely at 31% for the year.

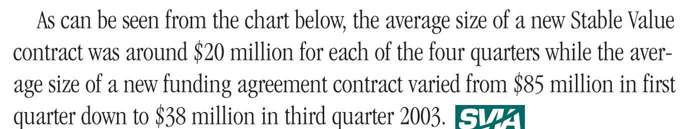
2003 Sales Breakdown	% of Sales	Dollar Value of Sales
New Stable Value Sales 2003	31%	$37,680,100,000
New Funding Agreement Sales 2003	33%	$39,716,900,000
% Renewal SV	20%	$23,441,200,000
% Renewal Funding	16%	$18,822,100,000

Below is a chart depicting the new versus renewal sales for the respective category for each of the four quarters in 2003. In the first and third quarters, new Stable Value sales were the greatest out of the four categories, while the second and fourth quarters had the greatest number of sales represented by new Funding Agreements. The total of new and renewals sales was relatively similar each quarter with the total ranging between $29 and $31 billion.

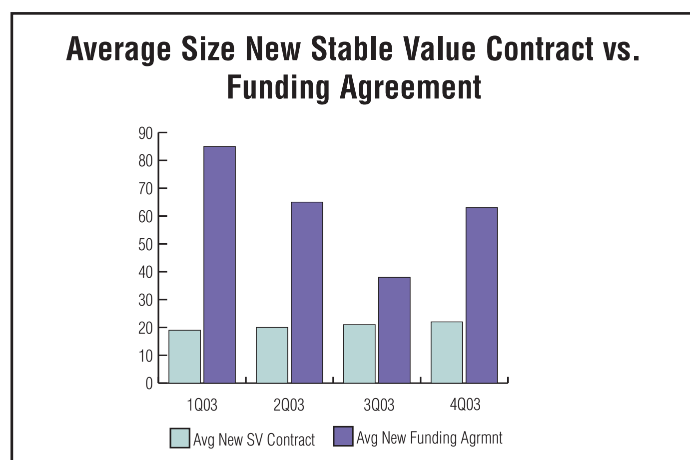


From first quarter 2003 to fourth quarter 2003, the total increase in Stable Value and Funding Agreement assets was 10 percent. While the percent increase in assets was greatest for Funding Agreements, the dollar value increase in assets was greater in Stable Value, increasing by $22 billion.

Quarter	Total Stable Value and Funding Agreement Assets	Total Stable Value Assets	Total Funding Agreement Assets
1Q03	352,000,000,000	245,000,000,000	107,000,000,000
2Q03	362,000,000,000	247,000,000,000	115,000,000,000
3Q03	366,000,000,000	247,000,000,000	119,000,000,000
4Q03	390,000,000,000	267,000,000,000	123,000,000,000
$ Value Change from 1Q03-4Q03	38,000,000,000	22,000,000,000	16,000,000,000
% Change from 1Q03-4Q03	10.80%	8.98%	14.95%



As can be seen from the chart below, the average size of a new Stable Value contract was around $20 million for each of the four quarters while the average size of a new funding agreement contract varied from $85 million in first quarter down to $38 million in third quarter 2003. SVIA



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who offer the full gamut of services, thus limiting opportunities for firms specializing in Stable Value. Finally, interest in conservative options in general has been somewhat limited, as well.

Does the opportunity exist today to develop the Stable Value market in Canada? On balance, the answer is, probably not, at least on a large scale. Nevertheless, Canada's potential remains attractive and the general trends appear to be favorable, suggesting the market bears close watching. Over time, as the retirement landscape continues to evolve, a better opportunity for Stable Value may present itself. SVIA