



April 1, 2004

Office of Regulations and Interpretations  
Employee Benefits Security Administration  
Room N-5669  
U.S. Department of Labor  
200 Constitution Avenue, NW  
Washington, DC 20210

Attention: Automatic Rollover Regulations

Dear Sir or Madam:

The Stable Value Investment Association (SVIA) is pleased to provide comments to the Request for Comments to the Proposed Regulation for Fiduciary Responsibility Under the Employee Retirement Security Act (ERISA) of 1974 Automatic Rollover Safe Harbor.<sup>1</sup>

SVIA:

SVIA is a non-profit organization dedicated to educating policymakers and the public about the importance of saving for retirement and the contribution stable value funds can make toward achieving a financially secure retirement. SVIA members manage \$321 billion invested in stable value funds by more than 25 million defined contribution retirement investors.<sup>2</sup> As of December 31, 2002, defined contribution retirement plan investors allocated 33 percent of their defined contribution retirement plan or 401(k) assets to stable value funds.<sup>3</sup>

SVIA's 100-plus corporate members represent every segment of the stable value investment community; including public and private retirement plan sponsors, insurance companies, banks, investment managers and consultants.

---

<sup>1</sup> Department of Labor, Employee Benefits Security Administration, 29 CFR Part 2550, RIN 1210-AA92, Fiduciary Responsibility Under the Employee Retirement Income Act of 1974 Automatic Rollover Safe Harbor, *Federal Register*, Volume 69, No. 41, March 2, 2004, pages 9900-9909.

<sup>2</sup> *Seventh SVIA Annual Stable Value Fund Investment and Policy Survey*. Washington, D.C.: Stable Value Investment Association, 2003, pages 1-3. The survey covers \$321 billion in stable value fund assets offered in 119,000 defined contribution plans as of December 31, 2002.

<sup>3</sup> *Ibid*, page 1. Please note that the survey's 33 percent allocation to stable value is based on 119,000 plans. All plans in the survey offered a stable value fund. However, across all defined contribution plans, only two-thirds of all defined contribution plans offer a stable value fund. Therefore, other 401(k) surveys may report lower allocations to stable value.

Comments:

SVIA commends the Department in developing proposed regulations that balance the goals of preserving individuals' retirement savings, upholding ERISA's fiduciary standards, and minimizing the burdens of additional administration and costs for plan sponsors.

SVIA strongly supports the Department's views that save harbor investment products should be "designed to preserve principal and provide a reasonable rate or return, whether or not such return is guaranteed, consistent with liquidity, and taking into account the extent to which charges can be assessed against an individual retirement plan."<sup>4</sup> SVIA commends the Department for specifically including "...stable value products issued by a regulated financial institution that are fully benefit-responsive to the individual retirement plan account holder..."<sup>5</sup>

SVIA asks for the Department's assistance in making stable value funds more accessible to retirement savers outside of employer-sponsored defined contribution plans by encouraging the creation of stable value funds in its various structures such as separate accounts, commingled funds and most recently registered funds or mutual funds. Under the current regulatory scheme, stable value funds can only be made available to investors outside of an employer-sponsored defined contribution plans through a mutual fund.

In 1997, stable value funds became available independent of the workplace or an employer-provided defined contribution plan with the introduction of the stable value mutual fund. However, unlike other mutual funds, stable value mutual funds are *only available through tax-favored savings vehicles including Individual Retirement Accounts (IRA)*. To date, there are limited opportunities to invest in stable value outside of defined contribution plans, with eight operational IRA stable value mutual funds offered by five different providers. Stable value mutual funds have grown to \$5.8 billion since their inception in 1997.<sup>6</sup> As this rapid growth attests, stable value mutual funds clearly meet a public need in helping investors save for their retirement.

The following comments explain why the Association believes it is critical that stable value funds in their various structures be included as one of the investment products permitted in the proposed regulations for the automatic rollover safe harbor.

Why investors want stable value:

SVIA believes that it is critical that individuals saving for retirement have access to stable value funds. 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:

---

<sup>4</sup> Federal Register, Volume 69, Issue 41, March 2, 2004, page 9901.

<sup>5</sup> Ibid, page 9902.

<sup>6</sup> SVIA Stable Value IRA Mutual Fund Assets Survey Through 2003. Washington, D.C.: SVIA, March 15, 2004.

- *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 because they 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.<sup>7</sup> 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.<sup>8</sup>

- *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.

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%	-0.59%	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 <sup>9</sup>	6.38%	6.53%	6.56%	8.85%	2.34%	0.2020

<sup>7</sup> Hueler Companies, *FirstSource 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 outperformed the Lipper Money Market Index from December 1987 to June 30, 2003.

<sup>8</sup> *Ibid.*

<sup>9</sup> Deutsche Asset Management, *Deutsche Asset Management Five-Year GIC Index*, June 30, 2003. The Deutsche Index was used as an approximate for stable value.

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.

*What is a stable value funds?*

Stable value funds invest primarily in diversified portfolios of investment-grade fixed-income securities that are covered by wrapper agreements. Wrapper agreements provide return stability and preservation of principal and accumulated earnings. Most funds have a weighted duration of approximately 1.5 to 4.5 years.<sup>10</sup>

*Why investors want stable value:*

Stable value funds have a history of more than thirty years of consistent performance for defined contribution retirement plan investors in public and private employer-sponsored retirement plans. This performance was achieved throughout a variety of market cycles.

While stable value funds have always been a major component of defined contribution retirement assets, demand for stable value funds has been rising. For the three years ending June 30, 2003 (the recent bear market for stocks), the Hewitt Index™<sup>11</sup> reported a record high volume of transfers out of equities into fixed income funds, with the lion's share of transfers going to stable value funds. Four trends are responsible for investors' increased demand for stable value: the equity bear market, the aging of the population, the shift in responsibility for retirement savings, and investors' awareness of investment risk.

- *The equity bear markets made investors more cautious.*

The recent bear market in equities drove home the realization for many investors that it is crucial to have a balanced portfolio in order to protect their nest eggs from the volatility of the equity market. Flows into stable value funds increased significantly in the past several years as investors recalibrated their portfolios to include a higher percentage of conservative assets bringing their risk exposure in line with their true tolerances. To illustrate, the allocation to stable value funds of total defined contribution assets for plans participating in the SVIA survey grew from 23 percent in 1997 to 33 percent in 2003.<sup>12</sup>

- *Stable value use increases as investors get older.*

As illustrated in the table below, all investors regardless of age use stable value.<sup>13</sup> While stable value use straddles all age groups, this data demonstrates that as investors age and

---

<sup>10</sup> *Seventh SVIA Annual Stable Value Fund Investment and Policy Survey, ibid, page 3.*

<sup>11</sup> "Have 401(k) Participants Learned the Value of Stable Value?" *Managing 401(k) Plans*, October 2003, page 3.

<sup>12</sup> "SVIA Stable Value Funds Investment and Policy Survey Hits Seventh Year, Finds \$321 Billion Invested in Stable Value," *Stable Times*, Third Quarter 2003, pages 8-10.

<sup>13</sup> Investment Company Institute Perspective, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2002" by Sarah Holden and Jack VanDerhei, Volume 9, Number 5, September 2003, page 7.

approach retirement their allocation to stable value increases. Allocation to stable value for the 60s age group reaches 26.7 percent compared to 15.8 percent for all ages in the survey.<sup>14</sup>

Average Assets of 401(k) Accounts by Participant Age, 2002 <sup>15</sup>									
Percent of Account Balances									
Age	Equity Funds	Balanced Funds	Bond Funds	Money Market Funds	Stable Value Funds	Company Stock	Other	Unknown	Total
20s	50.5	11.0	9.1	6.9	7.3	13.6	0.7	0.9	100
30s	51.4	9.8	8.6	5.2	7.4	15.9	0.9	0.7	100
40s	44.4	9.7	9.7	5.7	11.4	17.6	1.0	0.5	100
50s	37.3	9.1	11.5	6.4	17.5	16.6	1.1	0.4	100
60s	30.3	8.0	13.7	7.3	26.7	12.7	1.0	0.4	100
All	40.3	9.2	10.9	6.2	15.8	16.1	1.0	0.5	100

- *Investors take on more responsibility for retirement savings.*

The U.S. retirement system is often called a “three-legged stool” comprised of Social Security, an employer-provided pension, and individual savings. For this system to work, all three legs need to be equally strong and balanced. As it stands now, the U.S. retirement system is fundamentally out of balance.

Social Security is not sustainable under its current rules. Projections show that unless it is reformed, it will be able to cover only 73 percent of program costs after 2041 when the vast majority of baby boomers will be drawing benefits.<sup>16</sup>

Employer-provided pensions have also undergone a major transformation over the past 20 years. Increasingly, defined benefit plans that promise a percentage of salary as a retirement benefit have been replaced with defined contribution plans that provide a self-directed savings vehicle. This change has shifted the investment risk from the employer to workers who have little investment experience or training.

An increasingly mobile workforce also means investors have a temptation to spend rather than preserve retirement savings each time they change jobs. In fact, the Congressional

---

The data summarized covers 2002 and 15.5 million 401(k) investors in 46,310 plans with \$618.6 billion in assets.

<sup>14</sup> Ibid, pages 7-8.

<sup>15</sup> Ibid, page 7. Please note that the ICI data on asset allocation to stable value differs from the SVIA survey data because the respective surveys cover different samples. The SVIA survey includes 113,000 plans, all with a stable value option, and \$973 billion in assets. The ICI survey includes 46,310 plans, four investment plan types, with only two containing a stable value option, and \$618.6 billion in assets.

Additionally, the ICI's report also looked at allocation by plan investment options. When the ICI broke out plans that included stable value as an investment option in 2002, allocation to stable value rose to 29 percent for plans that had equity, bond, money market or balanced funds and stable value; and to 26.5 percent to plans that offered equity, bond, money market and/or balanced funds, company stock and stable value.

<sup>16</sup> 2002 Annual Report of the Board of Trustees of the Federal Old Age and Survivors Insurance and Disability Insurance Trust Funds. Washington, D.C.: U.S. Government Printing Office, 2002b.

Research Service reports that 14.3 million workers have been faced with the choice of spending or rolling over retirement savings at least once since 1998.<sup>17</sup> The benefits of stable value are increasingly denied to job changing investors since investors roll over retirement savings predominantly into Individual Retirement Accounts (IRA). Additionally almost half of the workforce, 51 million Americans, do not participate in or have access to a retirement plan. These individuals have been unable to utilize stable value funds to reduce risk and increase the returns on their retirement savings.

- *Investors are more aware of investment risk.*

All of these investors are hungry for investment vehicles that help to mitigate their investment risk without sacrificing returns, as evidenced by the popularity of stable value funds in 401(k) plans and the rapid growth in stable value funds. In fact, investors' sensitivity to risk was documented in the SVIA 2002 Conservative Investment Survey (CIS).<sup>18</sup> The survey found a surprisingly low tolerance for risk among 401(k) investors, with only seven percent reporting they were willing to take a substantial risk for a substantial gain.<sup>19</sup> The majority (64 percent) of 401(k) investors are willing to take a moderate amount of risk in exchange for a moderate return. Twenty-eight percent said they would only take a small or minimum amount of risk, even if it reduced the money they would make on their investments.<sup>20</sup>

Not surprisingly, retirees are more risk sensitive than 401(k) investors since they have fixed incomes and readily understand that a loss can mean a reduction in their standard of living. The majority (58 percent) of retirees prefer a retirement investment portfolio that allows them to take the least amount of risk necessary to achieve a steady stream of income.<sup>21</sup> Only 37 percent of retirees are willing to take a moderate level of risk in order to receive moderate returns, and one percent report a willingness to take a high level of risk in hopes of having high returns on investments.<sup>22</sup>

Stable value's characteristics of principal protection, dependable income generation and diversification struck a cord with the majority of survey respondents: retirees and 401(k) investors as demonstrated in the table below.<sup>23</sup>

---

<sup>17</sup> CRS Report for Congress, "Pension Issues: Lump-Sum Distributions and Retirement Income Security," Updated June 30, 2003, Patrick J. Purcell, Specialist in Social Legislation, Domestic Social Policy Division, page 8.

<sup>18</sup>SVIA Conservative Investment Survey. Washington, D.C.: Mathew Greenwald & Associates, Inc., June 21, 2002, pages 5-7. The survey focuses on trying to better understand the need for secure, low risk investments, as well as gauge the level of familiarity and appeal of stable value funds. Greenwald and Associates conducted the survey in May 2002 through a 15-minute national survey with 401(k) investors who participate in their employer's retirement savings plans and retirees who had saved at least \$5,000 in their former employer's retirement savings plans.

<sup>19</sup> Ibid, page 19.

<sup>20</sup> Ibid, page 19.

<sup>21</sup> Ibid, page 42.

<sup>22</sup> Ibid, page 42.

<sup>23</sup> Ibid, page 66.

Appeal of Stable Value Fund Characteristics <sup>24</sup>		
Investment Characteristics	401(k) Investors	Retirees
Important to have some of your retirement money in investments that guarantee you will not lose your principal	63%	69%
Important that a portion of your money for retirement is in investments that provide a dependable rate of return	59%	66%
Important that you minimize the risk to your original investment	34%	54%

Conclusion:

Clearly, investors' appetite for risk has decreased in the wake of the bursting of the equity market bubble. In addition, factors such as the aging of the American population, and the shifting of investment risk to workers, are fueling a trend toward less risky investment portfolios. As a result many investors have come to appreciate the risk control and attractive returns that stable value can provide.

Given our societal trend toward having the worker 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 investment attributes are present in stable value funds, which defined contribution investors have appreciated for more than thirty years. However, it has only been in the past several years that stable value mutual funds with these important characteristics have become available to investors outside of defined contribution plans through other tax-favored savings vehicles such as IRAs. Stable value funds can play an important role in helping Americans save for their retirement, both in defined contribution plans and in IRAs, for many years to come.

SVIA appreciates the opportunity to express its views on the contribution that stable value funds make to retirement security and commends the Department of Labor for recognizing their importance and including them as one of the safe harbor investment product options for automatic rollovers in the proposed regulations. We would be pleased to provide additional information and answer any questions. Thank you for your consideration of the Association's comments.

Sincerely,



Gina Mitchell  
President, SVIA

---

<sup>24</sup> Ibid, page 66.