STABLE TIMES

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IN THIS ISSUE

SVIA's *Conservative Investments Survey* Finds 401(k) Investors Stay Confident Despite Market Troubles

Confidence from Moderation and Conservative Investments

Gina Mitchell, SVIA

The Stable Value Investment Association's (SVIA) *Conservative Investments Survey* provides a wealth of information about 401(k) investors' concerns and practices. This article attempts to highlight just a few of the more interesting discoveries. Specifically:

- 401(k) investors have confidence in the safety of their 401(k) investments despite current market swings and a flurry of financial restatements and bankruptcy filings.
- Investors report a low tolerance for risk when it comes to retirement savings.
- Investors rely upon conservative investments such as money market, bond and Stable Value Funds.
- Most investors report that they are self-reliant when it comes to making their investment decisions. However, rocky financial markets have 401(k) investors desiring professional financial advice or retirement planning.
- Most investors are concerned about the impact of stock performance and lower interest rates on their retirement savings.

SVIA's *Conservative Investments Survey* focuses on trying to better understand the need for secure, low risk investments in our current investment climate, as well as attempting to

continued on page 2

Economic Outlook: Favorable to Stable Value for the Long Term

Victoria Paradis, CFA, JPMorgan Fleming Asset Management
Wendy Cupps, CFA, Pacific Investment Management Company

When are market conditions most favorable for Stable Value fund performance?

- When the yield curve is positively sloped, Stable Value will outperform money market funds.
- When interest rates are rising, Stable Value will outperform bond funds.
- When equity markets are stressed, conservative assets will outperform.
- When long-term equity returns are unexciting, Stable Value offers an attractive long-term risk-adjusted return profile.

Most of these conditions describe today's environment, which is why Stable Value funds are so appealing. Plan participants continue to recognize the importance of Stable Value as they grow their balances in this fund when it's offered. A critical question – for consultants, advice providers, financial planners and plan sponsors – is whether the fund's attractiveness will remain for the long-term, or whether market conditions will change, and Stable Value will lose its luster? The answer is that Stable Value's return profile is strong not just today, but is expected to remain so.

For perspective, consider what would create an unfriendly environment for Stable Value:

- If the Fed raises interest rates sharply (400+ basis points), money market yields may rise more quickly than Stable Value returns.
- A significant fixed income rally could cause bond funds to outperform Stable Value.
- A sustained, significant equity rally could cause the market

continued on page 4

Conservative Investment Survey

continued from page 1

gauge the level of familiarity and appeal of Stable Value Funds. Mathew Greenwald and Associates conducted the research in May 2002 through a 15-minute national survey with 500 workers who participate in their employer's retirement savings plans and 300 retirees who had a balance of at least $5,000 in their former 401(k) plans.

90% of Participants Confident in 401(k) Investments' Safety

Despite the growing concern about the integrity of financial information provided by corporate America and continued stock market turbulence, 90% of workers and retirees have confidence in the safety of their 401(k) investments. The survey finds that less than 10% of retirees and workers are shaken by current market instability. The survey finds that only seven percent are "less than confident" and two percent are "not at all confident" in the safety of their retirement investments.

During the 1990s bull market, 401(k) investors focused a great deal on investments in the stock market and became savvier about the different types of equity investment. However, many appear to have miscalculated their tolerance for risk or the potential loss from equity investments. The past 18 months of stock market experience have made investors keenly aware of the downside nature of this risk. In fact, the survey finds most took a moderate approach to investing, which may explain their level of confidence despite continued turbulence in the equity markets.

Investors Shun Risk: Moderation Prevails

The survey finds that the majority of retirees (58%) prefer a retirement investment portfolio that allows them to take the least amount of risk necessary to achieve a steady stream of income. However, only 37% 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.

Retirees' sensitivity to risk is not surprising since they rely upon this money to make ends meet. It is not conceptual. It is reality. They have fixed incomes and readily understand that a loss can mean a reduction in their standard of living.

What is surprising is the low tolerance for risk among current workers. Only seven percent of respondents report they are willing to take a substantial risk for a substantial gain. The majority (64%) report a willingness to take a moderate amount of risk in the hopes of receiving a moderate return. And, 28% said they are willing to take only a "small" or "minimum" amount of risk, even if it reduces the money they make on their investments.

Stable Value Piques 401(k) Investors' Interest

Market conditions and a desire for moderation also explain the appeal and increased interest in Stable Value Funds. The Survey found that 81% of surveyed workers indicate they would invest in a Stable Value Fund if offered one. Here's what American workers said they like about Stable Value:

- Eighty-one percent find Stable Value's higher rate of return, as compared to money market funds over the past several years, to be very or somewhat appealing.
- Seventy-nine percent find Stable Value's ability to act as a hedge against riskier stock market investments to be desirable.
- Seventy-one percent find Stable Value's ability to produce

continued on page 3

Editor's Corner

Wendy Cupps, CFA, Pacific Investment Management Company

I never thought I would see the day when Stable Value would be labeled "sexy." But with the stock and credit markets performing so poorly, a July 25 *Wall Street Journal* article stated that "these days, Stable Value looks downright sexy."

And not only is it gaining sex appeal, but Stable Value also seems to be earning back some respect. Stable value funds are receiving large inflows as investors search for stability in the midst of a very volatile market. The press has also increasingly recognized its newfound value and has written several favorable articles on Stable Value investing. We highlight some of these "press-sightings" in this issue of *Stable Times.*

Maybe our industry's newfound sex appeal will get your attention! Then again.... I don't think many folks in our industry think that sex is what sells when they're talking about Stable Value. But we are happy to see the attention being given to an investment option that has so many positive characteristics for investors. We would like to hear from you on other topics that you would like us to address, and get your feedback on the articles that have already been published.

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Conservative Investment Survey

continued from page 2

returns comparable to intermediate bonds but without the associated risks of bonds to be very or somewhat appealing.

Like active workers, retirees also find the characteristics of Stable Value Funds to be appealing. Fifty percent of retirees say that between 10-50% of their retirement assets are invested in conservative investments such as money markets, bonds, or Stable Value Funds.

Stable Value Not Available to All

The survey finds only 42% of workers report having a Stable Value investment option available, while 72% of those who have access to a Stable Value Fund invest in the option.

So where is the dark cloud in all this news for Stable Value? Fifty-eight percent of all 401(k) investors report that they do not have access to Stable Value Funds. They are denied what Stable Value brings to the table—a blend of the best features of conservative funds— returns similar to bonds without the risk of market value loss, and the safety and liquidity of money market funds. Plus, Stable Value Funds generally have lower fees than either money markets or bond funds. In fact, *Defined Contribution Plan Investing* found Stable Value Funds to be a very economical option based on fees, second only to index funds, with an average cost of 41 basis points!

80% Use Conservative Funds: Stable Value, Bonds & Money Markets

Over 80% of all 401(k) investors report allocating at least 10% of their retirement savings (82% of workers and 88% of retirees) to conservative funds defined as money market funds, bond funds, and Stable Value Funds. Over half of all American workers (54%) and half of all retirees report that between 10 to 50% of 401(k) assets are invested in conservative funds. In fact the survey finds that:

- Eighteen percent of American workers and 12% of retirees say that less than 10% of assets are invested conservatively.
- Twenty-eight percent of American workers and 26% of retirees report that between 10% and 25% of assets are conservatively invested.
- Twenty-six percent of American workers and 24% of retirees report that between 25% and 50% of assets are conservatively invested.
- Twelve percent of American workers and retirees report that between 50% and 75% of assets are conservatively invested.
- Eleven percent of American workers and 15% of retirees report that 75% or more of their assets are conservatively invested.

Confident but Not Complacent about Stocks and Low Interest Rates

Although 401(k) respondents are confident in their 401(k) investments, they are not immune to market woes. The almost continuous report of negative corporate events has made an impact on 401(k) investors' psyche. Over 60% of investors (both actives and retirees) report having concerns about the impact that lower returns from their stock investments or low interest rates could have on their retirement savings. Roughly 40% of both groups indicate that recent corporate failures and their impact on the safety of their investments are a concern. However, 401(k) investors begin to divide when it comes to employer stock. Only 17% of retirees are concerned with the safety of company stock in their retirement savings compared to 44% of workers.

Most Investors Self-Reliant

Despite prolonged volatility in the financial markets, most 401(k) investors go it alone, relying primarily on themselves and the information provided by their employer or savings plan provider in making retirement investment decisions. SVIA's survey finds that 52% of all retirees and almost half of all workers (48%) rely on their own judgment and investment knowledge when it comes to making retirement investment decisions.

Fifty-three percent of workers say they rely most on information provided by an employer or the savings plan provider in determining where to invest retirement savings, yet only 12% of retirees rely on this source. While this contrast is striking, over 80% of retirees report moving money out of their employer's 401(k) plan into Individual Retirement Accounts (55%), cash (25%), and other investments (26%). Approximately one-third (32%) of retirees report leaving their retirement savings in their former employer's defined contribution or 401(k) plan.

Retirees say they turn to financial advisers (51%), newspapers and magazines (40%), family and friends (17%), and asset allocation models (7%) for retirement advice. American workers rely less on financial advisers (44%) compared to retirees and more on other sources for retirement investment information: 32% newspapers and magazines, 26% family and friends, and 12% on asset allocation models.

Tough Times Call for Professional Advice from Advisors & Planners

It appears that market turbulence has 401(k) investors looking for reassurance. Eighty-three percent of workers and 69% of retirees say advice from professional financial advisors or retirement planners is the most important source for making retirement investment decisions.

Sixty-nine percent of workers and 50% of retirees rely upon prospectus and other written information when making investment choices concerning their retirement savings. Fifty-seven percent of workers use workshops on retirement planning and investing for retirement investment information, while only 37% of retirees use this option. The survey finds a similar result with the use of asset allocation models and computer software when it comes to making retirement investment decisions: 42% of workers and 26% of retirees use this type of assistance. A complete summary of SVIA's *Conservative Investments Survey* is available for SVIA members' use in the Members Only section at www.stablevalue.org. The survey is available for purchase to non-SVIA members.

Economic Outlook

continued from page 1

focus to return to aggressive risk taking, not balance and conservatism.

Are these conditions likely?

No. Industry-wide economic forecasts do not anticipate long-term unfriendly skies. In this article, JPMorgan Fleming Asset Management and Pacific Investment Management Company (PIMCO) outline their expectations, which consistently support the appeal of Stable Value for the long haul.

JPMorgan Fleming Asset Management

Economic expansion to slowly gather strength

JPMorgan Fleming's strategists believe that a profit rebound in the corporate sector will continue through 2002. The corporate sector is still restraining growth in labor costs and capital spending to rebuild profit margins. Tax relief and a declining dollar will, in aggregate, contribute to improvement in profit margins and will allow the corporate healing phase to continue. With improved profits, firms will slowly increase their hiring and capital spending. Inventory dynamics remain positive for production as firms move from rapidly shedding their stock to slowly accumulating.

Low interest rates and a strong housing market should sustain consumer spending, despite slow income growth and a weak stock market. Federal spending remains a positive. The process will be halting, but the odds of a double-dip remain low.

Inflation to remain contained

Global excess capacity and a continued lack of pricing power support lower inflation. Increased inflation pressure comes from the weaker dollar, higher oil prices, and domestic capacity utilization that is beginning to inch upward. On balance, expect inflation to remain contained.

Return expectations

U.S. stocks and bonds are likely to provide positive but "unexciting" long-term returns. The slow and uncertain economic recovery may continue to disappoint an equity market that remains priced for a better outcome. The Fed will continue to wait until the equity market, capital expenditures, and the employment picture improve markedly before raising interest rates. As the global economic upturn progresses, yields are likely to begin a rising trend.

JPMorgan Fleming believes that the conditions favorable to Stable Value will remain: a positively sloped yield curve, gradually rising interest rates, and unexciting equity market returns.

Pacific Investment Management Company

Secular (3-5 Year) Economic Outlook

We believe we are at a secular turning (inflection) point. A 20-year era of disinflation, driven by forces such as globalization, technological innovation, shrinking government, and preemptive central bank tightening, is drawing to a close. Over the next three to five years, we believe reflationary trends will dominate and sustain a mild global recovery, with inflation peaking at three to four percent in the US by the next cyclical peak. Key reflationary elements of our secular forecast include:

- Governments and central banks, alarmed by the threat of global deflation, will employ fiscal/monetary stimulus to restore corporate pricing power and help overburdened borrowers service their debt.
- Private sector excesses such as the Enron scandal and dot.com/telecom fiascoes will result in increased regulation and closer fiduciary oversight. The impact of this "fiduciary enlightenment" will be an increase in the cost of capital, which in a finance-based economy will translate into upward pressure on prices.
- Political unrest and prospects for war following the terrorist attacks of September 11 point to reflationary increases in defense spending.
- The diminished allure of U.S. assets and concern about the persistent U.S. current account deficit will cause the dollar to weaken, adding to inflationary pressure.
- Reflation will be tempered by a significant increase in manufactured exports from China, which will remain cheap as 300 million farm workers migrate to factories.

Stable Value Investments Should Be Attractive

Our outlook sets a stage that should prove to be very positive toward Stable Value as an investment option:

- Yield curves will remain positively sloped, and even steepen, in the face of monetary and fiscal stimulus and more expensive long-term corporate debt. Short rates will remain at relatively low levels for a prolonged period of time. Stable Value should continue to offer an attractive premium to money market funds as a result.
- Interest rates will be biased higher, with long-term yields climbing to six percent or more. Bond price erosion will be modest, with performance coming more from higher yields, rather than longer duration (price appreciation). Participants will likely value the principal protection and stability features that Stable Value offers relative to bonds and riskier investments in this period.
- We expect much lower long-term returns on stocks (six to seven percent) which should make bonds, and particularly Stable Value, look very attractive, on a risk-adjusted basis.

Investment Implications for Stable Value

Interest rates to trend higher - With deflationary counterweights keeping inflation contained in the three to four percent range over the secular time frame long-term yields will trend higher but bond price erosion over the period will be modest and not resemble a bear market. A prudent strategy for a reflationary economy with upward pressure on rates is to limit price risk and take exposures in bonds that offer extra yield with a margin of safety.

Limit price risk - A positively sloped and steepening yield curve argues for durations near or even shorter than a fund's benchmark index and yield curve strategies focused on short/intermediate maturities.

continued on page 5

As States Work to Conform to EGTRRA, Congress Attempts to Make it Permanent

Nick Caggia, SVIA

Last year, Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), with far-reaching effects for investors. The new law expanded and permitted catch-up provisions for retirement savings. The law worked to lessen the tax burden on Americans, but managed to also cause great consternation for state legislators, since they would have to conform state laws to the new federal policies.

A particular portion of the EGTRRA works to extend tax-deferred savings opportunities. Specifically, it expanded defined contribution limits from $35,000 to $40,000; increased the maximum amount of a participant's salary considered for plan purposes from $170,000 to $200,000; and, increased elective deferral limits from $10,500 to $15,000 over a five year period, among other provisions. In addition, IRA catch-up limits were raised by $500 per year through 2005 and by $1,000 from 2006 and thereafter.

While these provisions were lauded for their benefits to retirement savers, it has caused some concern for its state tax implications. Twenty-three states and the District of Columbia have tax codes that automatically conform to federal law. Nine other states do not have an income tax or have taxes only on interest or dividend income. Of the 18 states that did not conform, 13 have already passed legislation bringing their laws into conformity, three states have not made decisions on whether to conform, and two, New Jersey and Pennsylvania, have laws that are so divergent from federal law that they are not considering legislation.

Now, Congress has taken up legislation to make permanent the provisions of the EGTRRA. The original sponsors of the bill in the House, Representatives Rob Portman (R-OH) and Ben Cardin (D-MD), introduced such legislation and it passed on June 21. Similar legislation has been discussed in the Senate and will likely be introduced soon, possibly in conjunction with pension reform legislation currently under consideration (see article below).

Senate Finance Committee Passes Pension Reform Bill

Nick Caggia, SVIA

The Senate Finance Committee voted unanimously to pass legislation originally introduced as the "National Employee Savings and Trust Equity Guarantee Act" (NESTEG). Senate Finance Committee Chair, Max Baucus (D-MT), brought his modified version of the bill, authored by Ranking Minority Member, Charles Grassley (R-IA), before the committee in a markup session on July 11, 2002. Baucus' version retained the major portions of the original bill and added sections on investment advice and executive compensation. The bill passed the committee without much discussion or argument.

In addition to other provisions, the Chairman attached investment advice legislation, introduced previously by Senators Susan Collins (R-ME) and Jeff Bingaman (D-NM). This would exempt employers for advice offered by an independent provider, which varies from the house version of investment advice legislation. That version, sponsored by Representative John Boehner (R-OH) and passed along with President Bush's version of pension reform, would allow advice to be provided by plan administrators. The SVIA has been working to educate both houses of Congress about the usefulness of Stable Value and the importance of investment advice in retirement savings. The association has backed the version of advice legislation passed by the House of Representatives.

Sen. Baucus must now work with Sen. Edward Kennedy (D-MA), chair of the Health, Education, Labor, and Pensions Committee (HELP), which recently passed its own version of pension reform. That work will likely take place through August, with legislation brought to the floor after the summer recess. If the Senate legislation is passed, the bill would then be reconciled with the House bill. All of this reduces the likelihood of passage, as both houses of Congress plan to adjourn for the year on or around October 4.

On a related note, Sen. Kennedy has attached portions of his original bill to the Senate's version of corporate accountability legislation. The main focus of this is to penalize executives who mislead stockholders and employees regarding the strength of the company. As reported above, Sen. Kennedy will have to work with the Finance Committee to reconcile their bills.

Economic Outlook

continued from page 4

Own "safe" spread products – Bonds that offer yield premiums above Treasuries with a margin of safety should perform well. Among bonds that offer a "spread" above Treasuries, investment-grade corporates are an attractive alternative. We are targeting near index weightings of corporates to capture their attractive yields, which is a dramatic reversal from what we said and did in the 1990's, but that's what secular turning points are all about. Success in this sector demands selection of stable credits with transparent business models and accounting practices to avoid the "black holes" in the current market environment. Mortgages and limited allocations to top-tier emerging market bonds also meet this criteria for "safe" spread investments.

In sum, the renewed enthusiasm for Stable Value is neither a passing phenomenon nor an inappropriate investment strategy for long-term investing. Plan sponsors should not hesitate to continue presenting Stable Value funds as an attractive component of any retirement investment strategy.

Benchmarking Stable Value Manager Performance: The Search for a Solution

Randy Myers

Most plan sponsors and consultants continue to monitor Stable Value performance on a book-value basis, but some are starting to look at market-value results for greater insight into how their managers are performing.

Most institutional money managers ply their trade in a fishbowl; clients and their consultants scrutinize their every investment decision and calculate to the basis point the degree to which their performance is attributable to factors under their control, such as security selection and investment style, versus factors they can't control, such as general market conditions, industry trends, or the global economic environment.

Then there are Stable Value managers. Obliged to report their returns on a book-value basis that can mask changes in the market value of their portfolios, Stable Value managers operate in a world where no one has yet devised a foolproof system for determining how much value they create on behalf of their investors. "Historically, the way everyone evaluated Stable Value funds was to look at their book value performance results," says Vicky Paradis, a vice president with Stable Value manager JPMorgan Fleming Asset Management. "That is and always will be an effective way to measure a fund's success at meeting participant expectations. But it's not meaningful in evaluating a manager, because a book-value return series is a smoothed series that is hugely affected by things managers cannot control, such as cash flow timing, portfolio guidelines, and portfolio funding dates. We need a measure that highlights decisions that managers can control."

Paradis co-chairs the Stable Value Investment Association's (SVIA) Performance Measurement Task Force, which has been recommending that Stable Value managers report their results on a total-return, market-value basis, just as other investment managers do, and come up with a defensible methodology for calculating those results. Until the industry does that—assuming it will—investment consultants and employers who offer Stable Value funds in their defined contribution retirement plans are using a mish-mash of techniques to evaluate Stable Value performance. Most simply compare Stable Value returns to the returns of money-market funds or short-term bond funds, or to the performance of their peers; a popular benchmark is the Hueler Stable Value Pooled Index published by the Hueler Companies.

Other plan sponsors are pushing ahead, at least as much as current reporting standards will allow them. At Nestle USA, for example, manager of retirement investments, Karin Brodbeck regularly compares the market-value returns of her Stable Value fund's underlying bond portfolios against the returns of the Lehman Brothers Aggregate bond index. "We're looking at market value returns because, in essence, if our managers outperform their benchmark, that outperformance will ultimately be folded into our crediting rate, and our participants will benefit," Brodbeck says. Her Glendale, California-based employer, an arm of the Swiss food company Nestle SA, has about $1.1 billion in its 401(k) plan, with approximately $410 million of that held in its Stable Value fund.

For plan sponsors like Nestle, whose Stable Value fund is invested almost entirely in synthetic GICs—bond portfolios protected by an insurance wrapper—comparing the market-value returns of those portfolios to an unmanaged benchmark such as a Lehman Brothers index is a relatively simple way to gauge manager performance. But for Stable Value funds that also invest in traditional Guaranteed Investment Contracts, which at year-end 2001 accounted for about 37% of all Stable Value assets, it is only a partial solution. Consider Dow Corning; it has about 40% of its $400 million Stable Value fund invested in traditional GICs. While it benchmarks its wrapped bond portfolios against a universe of actively managed bond funds, it has no comparable benchmark for its GIC portfolio. Instead, says Hurley, it merely compares the interest rates offered by different insurance companies bidding for its business when it needs to buy new GICs, and gauges those rates relative to the issuer's credit quality.

The SVIA Performance Measurement Task Force is in contact with the Association for Investment Management and Research (AIMR), seeking to find a way for Stable Value to be covered by AIMR's Performance Presentation Standards, the reporting standards followed by most institutional money managers. Among the critical issues to be worked out are how to calculate market values for traditional GICs, for which there is no liquid market, and how to supply the historical performance data required to comply with the AIMR standards. On the first score the SVIA task force is recommending that managers calculate the fair value of traditional GICs by discounting their cash flows. AIMR, meanwhile, has indicated that the problem of collecting historical performance data is not unique to Stable Value and can be overcome.

The SVIA task force is also wrestling over the question of selecting a benchmark for Stable Value performance. Should managers be rated against broad market indices that plan sponsors know from their defined benefit plan portfolios, such as the Lehman Intermediate Aggregate, for example, or something unique to Stable Value? Some have suggested using a Treasury index, but that doesn't reflect the full range of investment opportunities open to Stable Value managers. Others have argued for developing a custom GIC index, but that would be complex and wouldn't help in evaluating sector decisions. Yet excluding GICs, some have worried, could prompt Stable Value managers to stop investing in those instruments. Klaus Shigley, a vice president with GIC issuer John Hancock Financial Services, isn't among them. He believes the Lehman Intermediate Aggregate could serve as an acceptable index because its duration would closely match the duration of many Stable Value funds. He also doubts

continued on page 7

Benchmarking

continued from page 6

that embracing that index would prompt Stable Value managers to stop using GICs, since he doesn't think GICs would exhibit much tracking error with the index. "I think GICs are by and large a pretty good value, and that over a full performance measurement cycle, you're likely to see that GICs add value and reward those managers who select them," Shigley says. "I feel this value added—the alpha in GICs—would ultimately drive the purchase decision."

Whatever benchmark is finally chosen, Greg DeForrest, a fixed income specialist in the global manager research group at Callan Associates, an investment consulting firm, says the job of benchmarking Stable Value managers will be easier once they are reporting total-return results. Those performance numbers will be especially useful in evaluating pooled funds, he says, which combine the Stable Value assets of multiple unaffiliated retirement savings plans. In the meantime, Callan is evaluating Stable Value performance much the way Nestle USA and Dow Corning do. The firm compares the market-value returns of wrapped bond portfolios to common bond market indices, such as the Lehman Aggregate and the Lehman Intermediate Aggregate indices. In the case of Stable Value funds which hold other assets, such as traditional GICs, Callan will compare their book-value performance with that of their peers, or, in some cases, against blended benchmarks it creates using a variety of bond indices of both intermediate and very short duration.

Mercer Investment Consulting, by contrast, continues to rely on book-value returns when evaluating Stable Value managers for its plan sponsor clients, according to Phil Suess, a Chicago-based principal with the firm and head of its Mercer Insurance Group. He says the firm is not actively searching for an alternative approach.

"Quite honestly, it's not an area we've spent a lot of time on," Suess says. "The two things we do focus on when we look at Stable Value—and it probably comes across to some as rather simplistic—we look at it in the context of determining what this vehicle needs to provide in order to be a viable option under a defined contribution plan. And the thing we focus on there is (that) it needs to provide a meaningful premium above money market instruments. Our expectation is that to the extent we have a Stable Value fund, we're going to be able to earn 100 to 150 basis points above money market funds over time—a three-to-five-year period. The second thing we focus on, and it's not necessarily as meaningful, we essentially take the median of the Hueler universe and share that with clients as kind of a benchmark as to what other Stable Value funds are doing."

Suess says his firm's plan sponsor clients aren't pushing it to do more.

"I've been with Mercer basically 15 years, and obviously performance evaluation is a big component of our business," Suess says. "(But) I have yet to have a situation where a client has really kind of gotten down to the nitty detail of performance evaluation in the context of Stable Value. Our approach has always been pretty simple in the context of (is it) earning its premium (over money market funds). There hasn't been a lot of feedback to become more detailed on that."

Dow Corning's Hurley is among those plan sponsors who are not convinced that a total-return benchmark is needed. "I have to confess that I haven't given it a great deal of thought," Hurley says, "but I don't see on the surface how it's going to help me manage the fund better."

DeForrest, by contrast, argues that many plan sponsors are "very interested" in being able to evaluate Stable Value manager performance. Yet he concedes that the complexity of Stable Value investing, with its book-value accounting methodology, has hindered efforts to develop a standardized benchmark. That complexity also leads him to conclude that the appropriate benchmark may be different for different audiences. "The plan participant may not want to look at a blended benchmark smoothed by some hypothetical wrap, because it's complex," DeForrest says. "For them, it doesn't make a lot of sense, because it's not their opportunity cost. Their opportunity cost is investing in a money market fund. If that's your audience, a money market benchmark is probably a more appropriate comparison. For a plan sponsor, they may want to use a blended benchmark, and it is something that, once they understand the issues, is very important to them."

To Paradis, the case for market-value accounting is clear. "Book value results don't tell the whole story," she says. "They don't allow a plan sponsor to differentiate one manager's investment ability from another. When plan sponsors select new managers or routinely review their current manager, the total return performance provides important information that is not available in book value results." Because Stable Value funds represent a huge pool of assets within the defined contribution plan universe, Paradis adds, "they play too significant a role for sponsors not to perform a meaningful analysis of the risk and returns of the investment portfolio backing the book-value obligation."

Stable Value in the News

Nick Caggia, SVIA

Stable Value continues to make news, as the SVIA and its membership work to shed light on the asset class. Listed below are recent media pieces that focus on Stable Value. For more information, please visit the SVIA website: www.stablevalue.org.

August 5, 2002, *US News and World Report,* **"Seeking Shelter Where Investors Ride Out the Market Storm"**
Discusses the current market downturn and steady investment options.

August 2, 2002, *USA Today,* **"Save Safely for Solid Return"**
Offers investors steady return options.

August 2002, *Managing 401(k) Plans,* **"Pooled Funds Not Used Pervasively, Even With 15% SV Asset Increase**
Details portions of the *SVIA Policy Survey*, focusing on the increase in Stable Value assets. Also describes the benefits of Stable Value in defined contribution plans.

continued on page 8

Stable Value in the News

continued from page 7

July 26, 2002, *CNNmoney*, **"How to Play It Safe"**
Discusses investors' search for reliable income producing funds. Highlights Stable Value as a conservative option for those seeking shelter from the stock market woes.

July 25, 2002, *The Wall Street Journal,* **"Stable-Value Funds See Inflows Amid Volatility"**
Offers a description of the benefits of Stable Value mutual funds.

July 24, 2002, *The Wall Street Journal,* **"Why I'm Dumping My Bonds and Snapping Up U.S. Stocks"**
Focuses on recent market fluctuations. Actually recommends buying Stable Value funds as an alternative to intermediate bond funds.

July 22, 2002, *SmartMoney.com,* **"Searching for Stability"**
Explains Stable Value funds in defined contribution plans and IRAs.

July 22, 2002, *Mutual Fund Market News,* **"Roughly Half of Retirement Investors Rely on Themselves for Advice"**
Details the *SVIA Conservative Investments Survey*.

July 12, 2002, *DC Plan Investing,* **"Stable Value News: Expense Ratios Rise But SV Still Lowest Cost Non-Equity Option"**
Quotes a survey, which finds that Stable Value fees average 0.41%.

July 2002, *Ignites.com,* **"Stable-Value Funds Drawing a Crowd"**
Highlights the emergence of and extols the benefits of Stable Value mutual funds.

July 2002, *Plan Sponsor*, **"Stable Value—Asset for All Seasons, Like Bonds, but Better"**
Describes the basic attributes and benefits of Stable Value. Offers statistics from the *SVIA Policy Survey* and a look into the future.

July 8, 2002, *Los Angeles Times,* **"For Income Seekers, There Are Alternatives"**
Details the latest stock market problems, and "alternative" products that investors can use to generate a steady income stream. Highlighted are Stable Value funds, TIPS, Municipal Bonds, and Real Estate Investment Trusts.

April 10, 2002, *The Today Show,* **"Is Early Retirement Still Possible?; Strategies That'll Help You Get Out of the Workforce"**
Concentrates on the prospects for retirement savings during turbulent times for the stock market. Involves a discussion of new tax laws, and the ability of participants to "catch up" in their savings. Stable Value is discussed in the search for stability and diversification.

April 1, 2002, *Investment Advisor Magazine,* **"Back in Style: Manager Eric Kirsch of Deutsche PreservationPlus Income Fund Offers Stable Value Investing to the Masses"**
An interview with SVIA Chairman, Eric Kirsch, on Stable Value IRAs.

SVIA Seeks Nominations for Six Open Seats on Board

Elections in October

Gina Mitchell

SVIA's Board of Directors has six positions that will be open at the end of this year: two plan sponsor and four service firm positions. Voting members are asked and encouraged to submit nominations for the six positions.

Board of Directors' Responsibilities. Individuals who serve on the Board are asked to take an active leadership role in the Association for a three-year term. The Board meets quarterly each year. In addition to attending these quarterly meetings, Board members are called upon to participate in conference calls and meetings as needed to advance the Association's agenda. Board members are also called upon to chair Association committees and lead association initiatives.

Requirements for Board Candidates. To become a candidate for election to the Board, an individual must be:

- A member in good standing in the Association,
- Become the voting member for his/her firm if nominated and elected, if not already,
- Commit to taking an active leadership role in Association activities, and
- For a service firm member, receive the greater of three nominations from SVIA voting members or 10% (rounded to the next higher value of the total number of voting members who make nominations.)

What exactly does that mean for service firm members? It means that getting the minimum of three nominations does not ensure that your nominee will be a candidate for the Board of Directors. Take the 2001 elections as an example, 54 voting members submitted nominations. That meant that nominees had to receive nominations from five individual voting members to become a candidate for the Board. That narrowed the field of service firm nominees from 47 to 12 for the five available service firm seats.

The three or 10% rule was instituted as a way to have the membership whittle down nominations to a manageable slate of candidates. The rule avoids primaries and the potential for a series of run-offs from an overly broad field.

Past Elections. Before 1999, just getting nominated was enough. However, in 1999, members' interest in a Board seat increased and produced a slate of 25 nominations, which translated into 23 candidates for three service firm seats. Interest from service firms continues to grow: 2000 produced 37 candidates and seven nominees for four seats, and 2001 produced 47 candidates and 11 nominees for five seats.

Plan sponsors are subject to all requirements but the three or 10% rule. They need only to be nominated by a voting member. This group appears to narrow down its own field. Last year, 13 sponsors were nominated and two ran. In 2000, 20 plan sponsors were nominated and five ran. In 1999, three individuals were nominated and all ran.

Thinking about a run or

ccontinued on page 9

Open Board Seats

continued from page 8

making nominations? A table of SVIA's Board of Directors is provided to help you think about nominations. Also, SVIA members are listed in the on-line and 2002 bound directory. For those of you who are thinking about running for the Board, companies' voting members are listed in the company profile section of your bound directory.

Departures from the Board. Lastly, many thanks to Verizon's Ben D'Angelo and General Mills' Dave VanBenschoten for their service on the Board. Ben's responsibilities have taken him away from Stable Value, hence his resignation earlier this year. Increasing demands as Treasurer of General Mills have also caused Dave to resign from his Board seat. AT&T's Mark Devine will fill out the remainder of Dave's term.

Seeking Second Term. The majority of the 2002 slate are seeking a second term. DuPont's Karen Chong Wulff, PIMCO's Wendy Cupps and John Hancock's Wayne Gates are seeking a second term. Two of the service firm positions are new seats that will bring the Board's elected and voting membership up to 20.

SVIA Elected Board as of July 2002

Term Expires	Name	Company	Member Category
2002	Karen Chong-Wulff	DuPont Capital Management	Plan Sponsor
2002	Ben D'Angelo	Verizon	Plan Sponsor
2002	Wendy Cupps	PIMCO	Service Firm
2002	Wayne Gates	John Hancock Financial Services	Service Firm
2002	New seat	New seat	Service Firm
2002	New seat	New seat	Service Firm
2003	Eric Kirsch (Chairman)	Deutsche Asset Management	Service Firm
2003	Mark Devine	AT&T	Plan Sponsor
2003	Nathaniel Duffield	Halliburton Company	Plan Sponsor
2003	Rick Cook	GE Financial Assurance	Service Firm
2003	Aruna Hobbs	AEGON	Service Firm
2003	Victoria Paradis	JP Morgan Fleming Investment Management	Service Firm
2003	Steve Schaefer	Allstate	Service Firm
2004	Don Butt	Qwest	Plan Sponsor
2004	Bob Fox	CIRS	Plan Sponsor
2004	Bob Madore	T. Rowe Price	Service Firm
2004	Marc Magnoli	JPMorgan Chase	Service Firm
2004	Kim McCarrel	INVESCO	Service Firm
2004	Jim McDevitt	State Street Bank & Trust	Service Firm
2004	Jim McKay	American Express	Service Firm
Ex-Officio			
	Bill Gardner (Past Chairman)	Dwight Asset Management	Service Firm
	Al Turco (Secretary)	Pepe & Hazard	Service Firm

Opportunities for Stable Value in France

Fabrice Lesaffre and Paul Donahue, INVESCO Fixed Income

The French have always viewed defined contribution (DC) pension plans with a certain degree of suspicion. In a country where solidarity (in the shape of income redistribution and a generous social safety net) often trumps individual interests, government-sponsored defined benefit plans are still the norm. DC plans, meanwhile, are accused of being too capitalistic and too "Anglo-Saxon." Since they threaten the status quo, they have remained mostly unwelcome.

Or have they really? Recent reforms in 2001 (under a socialist government, no less) have opened the floodgates for long-term employee savings plans. With their tax benefits, restrictions on liquidity and wide range of investment options, the Plan d'Epargne D'Entreprise ("Company Savings Plan") and its derivatives are pension plans in all but their name. Given the conservativeness of French investors and the rapid growth that is projected in this market segment, the opportunities for Stable Value products in France are very attractive indeed.

Market Demand

Demographics

The market for Stable Value in France benefits from a set of three mutually supporting circumstances. First, there is a clear market demand for safer investment options. The French population is aging just as fast as its counterparts in the rest of the developed world. Over the next 40 years, 10 million more individuals will swell the ranks of senior citizens above 60 years old, by which time a full third (i.e. 22 million) of the French population will be above today's legal retirement age. The country's ever-improving life expectancy and its ageing cohorts of baby-boomers ensure that the number of retirees in France will continue to expand as never before.

Precisely because of these demographic events, investor preferences will likely shift down the risk/return spectrum towards safer financial products, as retirees and soon-to-be- retirees seek to secure a nest egg for their retirement. Principal protected investments such as Stable Value are ideally suited to this evolving market demand for safe, yet productive, savings products.

Investor Preferences

Furthermore, the traditional conservativeness of French investors bodes well for the prospects of Stable Value. French households do not have the same appetite for risk as their American counterparts: they hold 28.6% of their financial assets in cash, deposits and money market mutual funds, nearly twice as much as U.S. households (15.5%). Since it competes directly with such guaranteed investments, Stable Value should find an unusually receptive audience in the French market.

Market Structure

Recent changes in market structures are an equally valid cause for optimism as to Stable Value's potential in France. The French employee savings environment was entirely revamped in February 2001, with a radically expanded scope, investment duration and choice that make it much more attractive. The "Fabius law" (named after the Finance Minister at the time) authorized the portability of employee savings from one plan to the other and introduced a long-term (10-year) savings option to complement the traditional 5-year savings plans. Most

continued on page 10

France

continued from page 9

importantly, the reforms finally endorsed collective savings plans for small and medium businesses that could ill afford to negotiate individual contracts with fund providers. The market for employee savings in France, and hence for Stable Value, has thus tripled to more than 15 million potential investors.

a) The Plan d'Epargne d'Entreprise (PEE and PEI)

Five million employees currently participate in this "Company Savings Plan," having invested a total of 53 billion euros in Company Common Placement Funds *(Fonds Communs de Placements d'Entreprise, or FCPE)*. This is a booming market, as FCPE assets have more than doubled from their 1996 level of 22 billion euros.

Contributions to PEEs by employees and employers are on a voluntary basis only, although the tax benefits are very attractive for both parties. In practice, firms often channel incentives and bonuses towards their employee's savings plan, and may also match part of their employee's contributions. Withdrawals are restricted for a relatively short period of only 5 years, in addition to which they can be withdrawn in certain circumstances such as marriage, divorce, death, retirement, purchase of a home and so on.

PEEs have become even more attractive since the 2001 reforms, however, with the creation of "Inter-company Savings Plans" (*Plan d'Epargne Inter-Entreprise,* or PEI), specially designed for small and medium businesses. FCPEs are now open to employees working in separate firms, which creates substantial synergies for fund managers and also greatly simplifies the lives of employees and employers alike. As fund management fees drop and investment options expand, the popularity of PEEs and PEIs will only increase.

b) The Plan Partenarial d'Epargne Salariale Volontaire (PPESV and PPESVI)

In France, the PPESV comes closest to resembling traditional retirement plans elsewhere in the world. A product of the 2001 reforms, it is conceived as a long-term complement to the PEE for employees who wish to increase the amount of their employer's contributions. While the ceiling for employer contributions is 2300 euros annually for a PEE, it is 4600 euros for a PPESV. Employees can thus triple their employer's handouts by combining the two plans.

Although the PPESV is broadly similar to the PEE, it is designed for long-term, retirement-orientated investors. Withdrawals are restricted for 10 years, and liquidity is reduced by authorizing withdrawals only in the standard cases of death, disability or retirement. As for the PEE, there is also a specially designed alternative for small and medium businesses, in the shape of the PPESVI *(Plan Partenarial d'Epargne Salariale Volontaire Inter-Entreprise)*. This cousin of the PEI offers the same broad advantages for investors, firms, and managers alike.

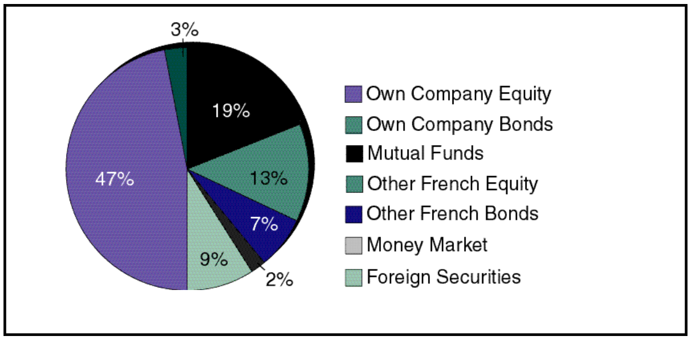
Overall, the PPESV is set for a spectacular takeoff. When they reach their peak in the next decade, PPESVs may manage as much as 200 billion euros in assets.

Diversification of Assets

The need for greater investment diversification is the third and last of the three mutually supporting circumstances that could benefit Stable Value in France. The *Commission des Operations de Bourse* (the French equivalent of the SEC) has complained of the lack of diversification of assets within FCPEs, since 50% of employee savings are invested in their employer's own securities. Not only does this pose substantial long-term risks to employees' financial well-being, but this asset concentration also runs against the employees' own investment preferences.

Until recently, in fact, half of all French companies with PEEs only offered one or two funds to their workers. The 2001 reforms creating PEIs and PPESVIs were partly intended to solve this lack of diversity, and PEE administrators have also increasingly begun to offer multi-manager funds. Thus, not only does this burgeoning catalogue of fund choices suit employee demands, but it may also help new products such as Stable Value to leap into the employee savings market.

Breakdown of FCPE Investments



Accounting Foundations

The main barrier facing the adoption of Stable Value funds in France, as anywhere else, is the need to account for assets at book value instead of market value, in order to provide the guarantee on principle and accrued interest that is the defining characteristic of Stable Value products. The consequent dissociation between the performance of underlying assets and investor returns must therefore conform to accounting standards, as is the case with AICPA SOP 94-4 in the United States.

Our research indicates that such accounting treatment could be applied in France to the wrap that provides the guarantee for a Stable Value fund and still comply with the accounting requirements set in the COB's regulation n°89-02 regarding mutual funds. Furthermore, in 2001 the COB extended some of the very same accounting privileges needed for Stable Value funds to mutual funds that operate in the employee savings environment and use leverage as a tool to boost performance *(OPCVM dits "à effet de levier")*. The accounting barriers to Stable Value in France, we believe, can be overcome.

Conclusion

The prospects for Stable Value in France are driven by three mutually supportive factors that are all cause for optimism. Market demand, in the shape of evolving demographics and investor preferences, is increasingly directed towards safe investments, while market structures themselves are also evolving in the right direction, thanks to recent reforms. Finally, authorities and employees both recognize the need for more asset diversification. Benefiting from the appropriate accounting treatment, Stable Value could not only find its niche in the French market for retirement savings, but it also certainly would be well positioned to take advantage of such an expanding market.

An ERISA Investment Check-Up: Procedural Prudence in Today's Market

Marla Kreindler and James Frazier, Katten Muchin Zavis Rosenman

In the wake of Enron, Global Crossing, and now WorldCom, there is probably no better time to give your ERISA compliance procedures an "Investment Check-Up." Just as you should see your dentist for routine check-ups, we recommend conducting routine audits and updates of your ERISA plan compliance procedures.

The Importance of ERISA Investment Check-Ups and Audits

ERISA's fiduciary standards include the requirement that plan fiduciaries act with the care, skill, and prudence that an expert would use in a similar circumstance. Even though hindsight may offer 20/20 vision and draw question to the prudence of a particular investment or investment course of action, courts have been more sympathetic to fiduciaries who can prove they gave appropriate consideration to the issues involved, sought expert advice where appropriate, and adequately monitored the investment on an ongoing basis. Thus, in interpreting ERISA's prudent expert standard of care, courts have looked to whether plan fiduciaries can demonstrate "procedural prudence" in the exercise of their ERISA fiduciary obligations. Simply put, in reviewing whether a plan fiduciary acted in a manner that is consistent with ERISA, courts review whether the fiduciary can document a prudent course of conduct.

With the "proof" thus residing in the process, the importance of a periodic investment check-up or update becomes all the more compelling. This is particularly true "post-Enron," as ERISA fiduciary litigation seems to be on the rise and the words "class action lawsuit" all too frequently are preceded by "401(k)." Notably, in reviewing some of the more recent class action complaints, allegations regarding the lack of proper diligence on the part of the plan's fiduciaries appear to be a recurring theme.

Assuming we now have your attention, we have drafted a series of questions to help you consider whether an Investment Check-Up might be useful to you:

Questions to Ask

For plan sponsors, the best place to start asking questions is often your plan's governing documents. For example, the questions that you might address could include the following: Do your plan and trust documents need to be amended to reflect any recent changes you may have made to your Stable Value fund? Are each of the different investment strategies employed by the managers of your Stable Value fund authorized under your plan's governing documents? Has the "named fiduciary" of your plan properly appointed each of your Stable Value investment managers and has each manager's scope of authority been properly authorized and documented? If more than one of your plans invest side-by-side in a single investment product (such as a synthetic GIC), have you considered whether the plans should invest through a master trust? If a master trust is used, have you complied with the recently revised master trust Form 5500 (Annual Report) reporting requirements?

Do you have a 401(k) investment policy? If not, do you know it is a requirement of ERISA? If you have an investment policy in place, when was the last time you reviewed it in light of how your Stable Value fund is currently operated? If your investment policy restricts derivatives, does it permit the use of futures and options or whatever other strategies your managers may seek to employ for efficient fund management? Does your policy impose requirements that are not being met?

If you are investing in bank collective investment trusts (or "81-100" group trusts), does your trust agreement appropriately authorize such investments and include the necessary "incorporation by reference" language? Also, are you required to appoint the collective trust's investment advisor as an ERISA investment manager? If so, was that accomplished and appropriately documented by the plan's named fiduciary? If you have appointed the collective trust's advisor as an ERISA investment manager, have you considered whether any of the restrictions in your investment policy place inappropriate limits on the advisor's management of the collective investment trust?

How often do you review the performance of your managers? Do you meet with your managers on a periodic basis to discuss the performance of your fund? If so, can you document this exercise of procedural prudence or are your notes random and scattered? If your manager has undergone recent changes, such as an internal reorganization, have you reviewed the changes and documented your conclusions relative to such changes? If you are conducting a manager search, has the process been appropriately documented?

Have you reviewed your corporate ERISA fidelity bond for compliance with Section 412 of ERISA? Have you considered the adequacy of your ERISA fiduciary liability policy? Do your managers maintain an ERISA fidelity bond to the extent required by Section 412 of ERISA? Have you considered the extent to which they also maintain fiduciary liability insurance?

Does your plan's named fiduciary operate as a committee? If so, does your committee act in the manner prescribed in your plan and trust documents and investment policy? For example, if your plan documents provide that your committee should have at least three members, does it? Have you appropriately documented turnover of committee members? Do you keep the minutes of committee meetings?

Have you reviewed the fees and expenses charged by your Stable Value fund and whether they are authorized under your plan's governing documents?

Have you reviewed your plan's participant communications? Do they reflect the way your Stable Value fund is currently operated? Are the participant communications consistent with the requirements of Section 404(c) of ERISA as well as with the terms of the Stable Value contracts in the Fund? For example, if the contracts provide some limitations on the types of withdrawals/transfers that may be made at book value, do you communicate these limitations to participants? If your plan also includes company stock as an investment option, do your communications meet the Form S-8/prospectus requirements? Have you disclosed to participants and beneficiaries that there is default risk (however small) relative to Stable Value investments?

If you are undergoing change, either at the corporate or plan level, have you communicated that change (and any material anticipated changes) to your Stable Value managers and product issuers. If so, do you understand

continued on page 12

Plan Sponsors, Vendors, Report Modest Rollover Activity Attributable to EGTRRA

Randy Myers

Last year's tax law changes may have made retirement savings plans more portable, but plan sponsors and plan providers say the new legislation hasn't prompted big changes in where investors are parking their retirement assets.

"During the first month or two of the new year, there was a fairly significant amount of (rollover) activity," says Robert Barkin, vice president of corporate communications for ICMA Retirement Corp., which manages defined contribution retirement savings plans for about 5,500 employers nationwide. "Since that time, the volume has decreased significantly. It really came in under our forecasts."

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), which took effect at the beginning of this year, made it substantially easier for investors to transfer their retirement savings from one plan to another after they change jobs or retire. Prior to EGTRRA, tax law restricted rollovers of assets in 401(k) and 403(b) plans to the same type of plan or to an Individual Retirement Account (IRA). And assets in 457 plans could only be transferred into other 457 plans. Now, assets in any of those types of plans can be rolled into any other type of plan in the event a participant changes jobs, or into an IRA. In addition, IRA assets can now be rolled into employer-sponsored plans.

Barkin theorizes that much of the early rollover activity that took place in the plans it administers was attributable to pent-up demand. "I think a lot of the demand was from people who had accounts with other financial services organizations, and their broker was telling them, 'Let's take care of this first thing,'" Barkin says. He adds that the legislation also created a degree of confusion among plan participants; some in ICMA-managed 457 plans were under the impression that they had to take their money out of those plans once they were no longer employed by the sponsor. "When we talked to them, we'd say 'No, that's not the case,' and even point out that there are certain advantages to keeping money in a 457 rather than an IRA," Barkin says. Among those advantages, he says, is the fact that distributions from a 457 plan prior to age 59 1/2 are not subject to the 10% penalty such as the one levied on similar distributions from an IRA or 401(k) plan. Of those ICMA investors who did rollover their 457 plan assets, he says, "a large majority" steered the money into IRAs, including, often, IRAs managed by ICMA. "We even created our own IRA wizard, which makes it extremely easy for people, right on the Internet, to transfer assets from their retirement plan into an IRA. Those are the kinds of things vendors are doing to make it easy for people who want to take that option."

The Principal Financial Group, which manages about $25 billion in retirement savings plan assets for more than 25,000 mostly small employers, says it also has seen little impact from the new tax laws thus far, at least as they pertain to plan portability. "Based on feedback from our Retirement Specialists, we have a very small participant base who have asked us about these provisions in the first six months (since they took effect)," says Principal spokeswoman Terri Shell. "Less than one percent of the participants who have called our Client Contact Center have asked about the EGTRRA provisions."

That jibes with the observations of Mary Kazan, director of benefits for Phillips-Van Heusen Corp. in Bridgewater, New Jersey. At that company, she says, "Employees were already allowed to roll 401(k) assets into another 401(k) (prior to EGTRRA), so for the most part we haven't seen much change. Kazan notes that employers in her industry typically don't hire many people who previously worked for the government or for non-profit organizations, so that the new portability benefits regarding 403(b) and 457 plans haven't had much impact at her company, either. Of those participants who do roll their money out of Phillips-Van Heusen's 401(k) plan, she says, about 75% roll their money into an IRA and about 25% into other employer's plans. The vast majority of those other plans are 401(k) plans, she adds.

Plan providers, plan sponsors, and plan consultants contacted by *Stable Times* all said they had no hard data on rollover activity attributable to EGTRRA, including any statistics that would indicate how plan participants are allocating their holdings among different asset classes. "The most recent data released by vendors is year-end 2001, which did not have this (legislation) in effect," says Dallas Salisbury, president and chief executive of the Employee Benefit Research Institute. "You are not likely to have any idea until this time next year."

That said, The Principal's Shell notes that among its plan sponsor clients, "we can determine that for those who are taking advantage of the increased portability of their rollover dollars, they are increasingly rolling 403(b) and IRA funds into their 401(k) plans. We have seen instances of individuals rolling as many as 10 retirement plans into their 401(k)."

Plan sponsors themselves have been fairly quick to implement the rollover provisions enabled, but not required, by EGTRRA. "All of our plans currently allow rollover dollars into their plans," says Shell.

Ultimately, those provisions may get heavy use. It just hasn't happened yet.

ERISA

continued from page 11

the effect these changes may have on your Stable Value fund? For example, are you aware that Stable Value contract issuers may require notification of the addition of a new plan investment, or of changes to your plan's participant-directed withdrawal and transfer rules?

The purpose of this article is to get you thinking about what procedural prudence means in the context of today's Stable Value funds. This is an important issue to consider. However, the questions set forth above are only examples of the types of questions you might ask. Your circumstances might warrant similar questions or completely different ones. The important point, however, is that you give appropriate consideration to your own unique facts and circumstances. Think about it this way – if a complaint were brought against your plan, would you want to find out then that certain aspects of your fund's operation were inconsistent with your plan's documents or the plan's investment policy?