July 20, 2007

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

Attention: Fee Disclosure RFI

Dear Ladies and Gentlemen:

As requested in the April 25, 2007 *Federal Register*, the Stable Value Investment Association (SVIA) is providing comments on disclosure of information relating to defined contribution plan investment options and fees. We believe that both plan participants and plan sponsors should be provided with succinct, understandable information regarding their investment options and associated fees. Toward that end, SVIA is providing comments on an overview level and with respect to the stable value asset class more specifically.

SVIA

SVIA is a non-profit organization dedicated to educating public 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. As of December 31, 2006, SVIA members managed over $413 billion invested in stable value funds by more than 25 million defined contribution retirement investors.[1] Stable value funds are one of three core investments used by plan participants who typically allocate 20 percent of their assets to stable value funds.[2]

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

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[1] SVIA's 11th Annual Stable Value Fund Investment and Policy Survey covering stable value funds as of December 31, 2006.

[2] Hewitt Index™ reports that stable value funds are one of three core investments: equities, company stock and stable value used by 401(k) participants. Since the inception of the Hewitt Index™ to date, roughly 20 percent of assets are allocated to stable value funds.

<u>Stable Value Funds</u>
Stable value funds are one of a few asset classes that consistently generate positive returns in all market cycles. They provide four major benefits to investors:

- Safety of principal;
- Bond-like returns without their associated volatility;
- Stability and steady growth of principal and income; and
- Ready liquidity to plan participants.[3]

In addition to these characteristics, plan participants recognize the benefits that stable value provides to their entire savings plan balances including the ability 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 funds or money market funds.

The stable value asset class is hallmarked by diversified portfolios of investment-grade fixed income securities that are covered by assurances from financially responsible institutions such as insurance companies and/or banks. The assurances provide for return stability and preservation of principal and accumulated earnings. Only funds that include such assurances and meet all the other requirements for contract value reporting as defined by the Financial Accounting Standards Board are considered stable value funds.[4]

<u>Information Disclosure</u>
The SVIA believes that plan participants and plan sponsors are best served through different types of disclosure. For plan participants, SVIA believes that the following information should be provided for all investments. Illustrations are provided specific to stable value funds.

- <u>Investment objective of the fund.</u> For example, a stable value fund seeks to preserve principal value and provide current income consistent with bonds of a short-to-intermediate maturity.

- <u>Description of the fund's investment strategy.</u> For example, a stable value fund invests in high-quality diversified portfolio of fixed income securities with wraps or financial assurances from banks and insurance companies that enable participants to transact at contract value.

- <u>A description of who should invest.</u> For example, investors seeking capital preservation and a conservative competitive yield should invest in stable value. Investors with a short-term investment horizon (less than five years) may also find stable value appropriate as well as long-term investors seeking to balance the risks of a portfolio containing equities.

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[3] Ready-liquidity is provided through benefit responsiveness which requires all plan participants transactions occur at contract value, which is the investment, or principal plus all accumulated interest.
[4] Accounting requirements for stable value funds were defined by the Financial Accounting Standards Board in FASB Staff Position Nos. AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans.*

- Fund performance. The annual average returns should be provided for the latest period, along with historical returns on a one, three, five and ten year basis if available. SVIA believes that plan participants should be provided *returns net of all fees* so that participants clearly see what the investment has earned after fees. For a stable value fund, returns net of all fees would be provided by giving the stable value fund's net crediting rate or its current yield net of fees.

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

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

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

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

Based on a 2005 SVIA survey, stable value management fees averaged 0.22% for portfolios with assets up to $100 million, 0.14% for portfolios with assets between $200 to $499 million, and 0.11% for portfolios with assets $500 million and above.[5] These fees can be charged explicitly in the form of a wrap fee or implicitly in the case of a guaranteed investment contract or a general account-based stable value fund. The cost of the assurances required to construct a stable value fund generally range from 0.06% to 0.15%. Trust and custody expenses generally range from 0.01% to 0.03%.

[5] Stable Times, First Quarter 2005, Volume 9, Issue 1, *Focusing on 401(k) Fees Can Help Build Retirement Savings.*

We appreciate your consideration of our views, and would be pleased to provide further information on this important issue.

Sincerely,

Gina Mitchell
President
Stable Value Investment Association