

DWIGHT ASSET MANAGEMENT COMPANY

WHAT DOES THE PENSION PROTECTION ACT MEAN FOR STABLE VALUE FUNDS?

Qualified Default Investment Alternatives

The Pension Protection Act of 2006 includes provisions that make it easier for plan sponsors to automatically enroll participants in defined contribution plans. The sponsors must now determine how to direct contributions for their reluctant participants. The Act further identifies those types of investment options that can serve as qualified default investment alternatives (QDIAs). In essence, QDIAs provide the sponsor with a measure of liability relief. It is not hard to understand the need for such protection if one pictures the employee who finds that his or her take-home pay has been reduced—and who sees an account balance that indicates an investment loss.

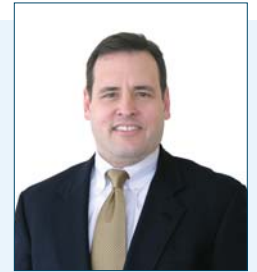
Investment managers see the potential for hundreds of millions of dollars in new cash coming into their funds from these automatic deferrals. Of course these managers would also receive corresponding fee revenues. Given the new opportunities, interested parties are marshalling arguments for why a target-date retirement fund, lifecycle fund, equity fund, or even a stable value fund would be the right investment choice. Insurance companies, which represent stable value funds, are battling mutual fund companies, which represent target-date mutual funds, and the stakes are huge. Dwight supports the use of stable value funds as a QDIA.

Stable Value Funds as a QDIA

Those who promote the stable value fund as an ideal QDIA point out the investment option's unique combination of principal stability and the potential over time for intermediate-term bondlike returns.

Opponents claim that the option does not deliver the higher returns of equity products. This seems to us a somewhat pointless argument, somewhat like complaining that an apple is not more like a pear. Further, it ignores the historical record of stable value, dating to the early days of 401(k) plans, when the option was instrumental in making employees comfortable with the idea of saving through an employer-sponsored plan. Today's "forced" enrollees might be more comfortable beginning their 401(k) experience with an option whose objective is to preserve principal while providing an attractive return.

Nonetheless, it is important to consider the implications of stable value funds not being designated as QDIAs. The result is certainly not the death knell for the option because the focus of the fiduciary relief is on decisions related to investment direction for employees who are automatically enrolled in the plan and whose contributions are directed by the employer. Those hundreds of plans which already offer the option within a suite of investment choices to voluntary participants will undoubtedly continue as such. Rather, it would be an opportunity lost for stable value providers, and also for those employees who are new to the idea of saving through work. Perhaps with further education, these new savers will eventually reallocate a portion of their savings plan assets toward stable value funds, as millions of existing plan participants have already done. ■



Jeff Norris
Chief Operating Officer

*Written by Jeffrey B. Norris, CLU
Managing Director, Chief Operating Officer*

continued on page 2

For more information:

Fixed Income & Stable Value

Greg Prisk
Executive Vice President
802.383.4104
gprisk@dwright.com

David Richardson, CFA
Managing Director
802.383.4024
drichardson@dwright.com

Insurance

Donald Hill
Senior Vice President
802.383.4062
dhill@dwright.com

John Loud
Vice President
802.383.4047
jloud@dwright.com

Consultant Relations

Lisa Trubiano, CFA
Senior Vice President
802.383.4066
ltrubiano@dwright.com

Anicia Mendez
Vice President
802.383.4067
amendez@dwright.com

100 Bank Street
Suite 800
Burlington, VT 05401
802.383.4000

One SW Columbia
Suite 1720
Portland, OR 97258
800.929.4427

www.dwright.com

ABOUT THE AUTHOR

Jeffrey B. Norris, CLU
Managing Director, Chief Operating Officer

Jeff is the firm's Chief Operating Officer, responsible for day-to-day operations and planning as well as leading a number of committees and firm initiatives. Jeff brings 21 years of experience from Metropolitan Life Insurance where he was Vice President, Retirement & Savings. Jeff is a member of the firm's Board of Directors, and he chairs the firm's Management Committee.

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