From: Chris Tobe
Sent: Thursday, July 21, 2011 9:15 AM
To: Comment Letters
Cc: Jennifer Galloway
Subject: Comment on 529 College Savings

MSRB needs to create rules to fully disclose fees and risk in stable value investments in 529 College Savings Plans and allow flexibility for College Savings plans to invest with public 457 DC plans to lower fees and get access to better investments.

A little over $5 billion of Stable Value is in 529 college Savings. Stable Value can be 20% to 40% of the balances in a given state plan.[i] College Savings is a Defined Contribution type plan so the investment choices tend to be similar to other DC plans like government 457 plans.

Stable Value It is extremely popular with 401k participants in terms of the perceived risk/return profile, since many believe stable value funds are superior to almost any other conservative investment option, particularly money market funds which in recent years have had 1/3 the yield of stable value. These findings have been confirmed in a Wharton study[ii]

Stable Value is delivered in general account, insurance company separate account and synthetic wrapped stable value. Large 401(k) ERISA plans abandoned General account GIC's almost 20 years ago after the Executive Life and Confederation Life defaults of 1992. However the majority of stable value in 529 plans is insurance company general account.

Ben Bernanke spoke saying "Workers whose 401(k) plans had purchased $40 billion of insurance from AIG against the risk that their stable value funds would decline in value would have seen that insurance disappear."[iii] While this stable value angle received little publicity, it should be a lesson for the future. A 529 plan is taking a severe fiduciary risk having a single contract with any one entity like AIG. By doing so the plan is almost assuming that the insurance company is too big to fail and has an implied government guarantee.

The DC 457 public sector has finally caught on to the problems of general account as their association NAGDCA just created a new brochure in September 2010 with the following characterization of General Account stable value. *Due to the fact that the plan sponsor does not own the underlying investments, the portfolio holdings, performance, risk, and management fees are generally not disclosed. This limits the ability of plan sponsors to compare returns with other SVFs. It also makes it nearly impossible for plan sponsors to know the fees (which can be increased without disclosure) paid by participants in these funds – a critical component of a fiduciary's responsibility.*[i]

Insurance Companies argue that putting your eggs in one basket (theirs) is sound. This is the complete opposite of one of the most basic investment strategies – diversification. A May

2010 WSJ article gives the what I believe is the industry consensus that general account is if not unethical, old fashioned and backward. "*Amid the shortage of wrap insurance, though, some firms are seizing an opportunity to reintroduce older types of stable-value products that are backed by a single insurer and carry considerable risks. OneAmerica Financial Partners Inc.'s American United Life Insurance Co., for example, last month launched a stable-value product backed by its own general-account assets. In such products, investors are taking on the risk that this single issuer could go belly up.* [ii]"

529 plans should not take on the single entity credit risk and liquidity risk of an insurance Company especially in the aftermath of AIG and in the so called end of too big to fail? How can a fiduciary bet with a insurance company separate account or general account that it is not the next AIG? Along with the high hidden fees that enable insurance companies to manipulate administrative pricing and even some consultants, general account stable value products should be troubling to all College Savings plans.

MSRB needs to create rules to fully disclose the risks and fees in stable value investments in 529 College Savings Plans and allow flexibility for College Savings plans to invest with public 457 DC plans to lower fees and get access to better investments.

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[i] http://stablevalue.org/library/stable-times/first-half-2011-volume-15-issue-1/stable-value-statistics/

[ii] http://www.plansponsor.com/Study_Backs_Value_Add_from_Stable_Value_Assets.aspx

[iii] Wall Street Journal 3/26/09 http://online.wsj.com/article/SB123802645178842781.html

[i] http://www.nagdca.org/documents/StableValueFunds.pdf

[ii] http://online.wsj.com/article/SB10001424052748703572504575214723494032604.html?mod=WSJ_PersonalFinance_PF2