The Stable Value Wrap: Insurance Contract or Derivative? Experience Rated or Not?

by Paul J. Donahue ¹

Table value, one of the options most popular with participants in defined contribution pension plans, ² depends on accounting for investments at contract value. To be reported at contract value, an investment must provide a guarantee that principal and accrued interest always will be available to pay benefits and make permitted transfers. AICPA SOP 94-4, the Stable value constitution, descriptively names this guarantee “a principal and accrued interest risk transfer.” Industry practice names this required guarantee “benefit responsiveness.” It is provided by the “benefit-responsive wrap contract,” or simply a “wrap.” In this article, I shall refer to the principal and accrued interest risk transferred by these contracts as a “wrap.”

In December 2000, the FASB Derivatives Implementation Group released Statement 133 Implementation Issue No. A16, “Definition of a Derivative: Synthetic Guaranteed Investment Contracts,” ⁴ which concludes that “from the perspective of the issuer of the contract, synthetic GICs are derivatives under Statement 133.”

This article discusses current controversies about the classification of the wrap contract and about the relative value of its experience-rated and non experience-rated versions. It begins with a brief description of stable value. It then discusses the operation of the stable value wrap contract. The article next takes up proper classification of the wrap. After applying the elements of the Statement of financial accounting standards (SFAS) definition of a derivative to the characteristics of a wrap, the article concludes that a wrap does not meet a single element of the definition and is not a derivative.

The article concludes that a wrap is most usefully understood as an insurance contract. In its most prevalent form, the wrap risk is self-insured, with a third party providing catastrophic stop-loss coverage, although broader third-party coverage is still available and purchased. The article then examines the widely shared opinion that nonexperience-rated wraps are significantly more valuable than experience-rated wraps. The article concludes that, in most situations, a non experience-rated wrap is worth no more than an experienced-rated wrap, and, in some situations, is worth even less. Each wrap purchase depends on plan specifics, and wrap managers of ERISA plans have a fiduciary duty to make certain they are getting added value when they choose to “pay-up” for nonexperienced-rated wraps.

The Stable Value Option

Stable value is primarily a feature of defined contribution benefit plans, and the plan context is assumed in this article. This means that transfer and withdrawal rights are dictated by plan design. The “stable” in stable value refers to preservation of principal. Account balances do not vary with changes in market interest rates, but only increase with credited interest. Most descriptions of stable value say that it assures principal and provides current income. Typical return expectations are that Stable Value will return 1% – 2% in excess of returns on 91-day T-bills.

The Wrap Contract

A wrap assures that funds will always be available to pay plan benefits and make transfers at contract (“book”) value, regardless of the market value of the wrapped assets. In its original form in a Guaranteed Investment Contract (GIC), the actual withdrawal experience did not affect the interest credited to participants. In the language that prevails in the industry, it was non-experience-rated. ⁵

The alternative, a wrap where withdrawal experience does affect the interest credited to participants (an experience-rated wrap), is easiest to understand when the wrapped asset is a readily marketable bond. The crediting rate changes periodically according to a formula that amortizes differences between the contract value of the bond and its market value. The amortization period is typically the duration of the investment on the date the rate is reset. When a withdrawal is made, the participant receives contract value. The market value of the contract is reduced by the same amount as the contract value. This forces the ratio of contract value to market value farther from one. For example, if market value is $95 and contract value is $100, a $5 withdrawal will reduce the market to book ratio from 95% (95/100) to 94.7% (90/95). There is an additional shortfall between contract and market of 0.30%. If the current duration of the bond is 1.5 years at the reset date, the withdrawal will have caused the credited rate to drop by 0.20%, .30% divided by 1.5 years.

The essence of a non-experience-rated wrap is a transfer of funds between the issuer of the wrap and the stable value fund of an amount that will keep the market-to-contract ratio the same after a withdrawal as it was before the withdrawal. If market value is below contract value, the issuer pays the fund; if market is above contract value, the fund pays the issuers. In the example above, the issuer would have contributed $.25 to the contract’s market value, so that the ratio of market value to contract value, $90.25/$95.00, would remain at 95%.
To use the language of financial options, a stable value participant has the right to “put” his/her account to the fund at contract value, regardless of the market value of the underlying assets. The wrap contract is the mechanism that, either by adjusting the interest rate credited to the remaining participants, or by making or receiving a payment from the wrap issuer, eliminates any book/market differential caused by a participant withdrawal. It is factually incorrect to describe the wrap contract itself as a “put.” Except in a catastrophic environment, the put experience of the fund does not affect the financial experience of the issuer in experience-rated wrap contracts, since crediting rate adjustments make continuing participants the ultimate option counterparties of those who withdraw. In the example considered above of a nonexperience-rated wrap, the issuer lost $.25.

The Problem of Pricing Wraps
When risk assessments by potential purchasers of a risky investment are radically lower than those of prospective sellers, there may well be no “market price” on which a willing buyer and seller can agree. In my view, this is often the case for nonexperience-rated wraps.

There is a wide disparity of views on the appropriate assumptions for both incidence and cost of exercise of the stable value participant’s put against the fund. At one extreme, some (myself included) believe exercise is positively correlated with issuer gains and that the risk charge appropriate to a nonexperience-rated contract is negative. Others (1) restrict their analysis of alternatives to fixed-income products, ignoring the more popular equity options, (2) assume a high degree of efficiency of exercise, and (3) make interest rates highly volatile in their stochastic models. This leads to high projected wrap costs for non-experience-rated products.

Determinants of Participant Behavior
A plausible hypothesis that fits the evidence of at least my firm is that revaluation of the relative risk of the plan options available to the participant is the greatest single factor affecting stable value withdrawals.

The graph below tracks the quarter over quarter total return of the S&P 500 index and the difference between a 60-month rolling average of monthly yields for the five-year Constant Maturity Treasury bonds, a stable value surrogate, and a three-month rolling average of monthly yields on three-month T-bills, a money market surrogate, for the period January 1975 to May 2000.

Even over this period containing two periods of extreme rate inversion, the stable value average return, 8.37%, exceeded the money market average return, 6.79%, by 23%. A dollar invested in stable value at the beginning of the period would have grown to $8.36 by the end of the period. A dollar invested in a money market fund would have grown only to $5.67. The stable value accumulation exceeds that for money market by 47%. These advantages of stable value are compelling in the context of a program aimed at retirement income.

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During the long equity boom, participants came to believe that equity investments were safer with respect to preservation of principal than they used to think. This led them to allocate less to stable value, and more to equities. While attitudes were changing, as the boom persisted and especially in the glory days of 1997 and 1998, participant allocations to stable value continued to fall. They have since stabilized, albeit at a lower level. Further, as aggregate wealth increases with respect to the demand for a given income, even the conservative investor rationally attaches a lower value to preservation of principal and a higher value to growth of capital sufficient to attain secondary goals.

From January 1991 to May 2000, interest rates, as measured by the five-year Treasury CMT rolling average, rose on a year-over-year basis in only 20 of the 113 months. Increased participant comfort with equities is positively correlated with positive equity returns, which are positively correlated with falling or stable interest rates. In general, then, participant withdrawals during this period were favorable to the party bearing the withdrawal risk. For experience-rated wraps, the other participants reaped the benefits; for nonexperience-rated wraps, the issuers reaped the benefits.

Classification of the Wrap: Insurance Contract or Derivative?

Wraps are not derivatives.
SFAS 133 states that for a financial instrument to qualify as a derivative it must possess all three of the following characteristics:

1. A derivative must have at least one variable factor in the calculation that determines the required payment. This required variable is called an “underlying.” A derivative must have either some measure of quantity, to which the underlying(s) is (are) applied in the calculation that determines the required payment, or a payment provision, or both. That measure of quantity is called a “notional amount.” An underlying is a specified financial variable, an interest rate, security price, or other variable. A payment provision specifies a fixed or determinable settlement to be made if the underlying performs in a specified manner.

An option to buy 100 shares of stock at $50 per share provides a classic example. The notional amount is 100 shares; the underlying is the price of one share. The value of the option on any date when exercise is possible is the price of a share minus $50, not less than zero, times 100. If the current price of the share is $60, the value of the option is ($60 – $50) * 100 = $1000.

A wrap does not meet even this first test.

What is the underlying?
First of all, there is no clearcut underlying. The suggestion of 133 Issue A16 that the underlying could be the reset formula itself is problematic. A formula is in itself entirely static. The reference to “reset formula” may be shorthand for the series of rates generated by application of the formula. This would make the notional amount a complex series that impounds both market interest rate movement and participant behavior.

Market interest rate movement and participant behavior.
Market interest rate movement determines the market value of the assets. Participant net contributions reduce any market to book difference and net withdrawals increase any market to book difference. The reset formula moves book value to wherever market rates have taken market value, and the successive rates are autocorrelated. I have argued above that participant behavior is largely driven by participants’ views of the safety of principal across the investment choices (including equities) the plan offers, not by differences across the yield curve. Is it useful to talk about a series where individual plan design is a major determinant as an “underlying,” when that word usually refers to the price of a share or index, or to a market rate of interest?

The obvious candidate for an underlying is the market value of the wrapped portfolio. That at least is determined purely by market forces and is the underlying for accepted derivatives, for example, portfolio insurance.

Choosing a “notional amount” is even more problematic. To define the book value as the “notional amount,” as 133 Issue A16 seems to do, would be to include one of the elements of the definition of a derivative in another of the elements. That is because, both for the 133 Issue A16 definition of underlying, crediting rate formula, and for what I would prefer as a definition of underlying if we are forcing wraps into the definition of derivative, the
difference between book and market, book value is part of the calculation. That cannot be what SFAS 133 intends.

The maximum value of the wrap (the issuer’s maximum liability) is the difference of two variables, book value and market value. This difference varies unpredictably from day to day, whereas notional amounts are generally constant (e.g., 10 shares or $10 million), or are at least determinable with certainty in advance. Even accepting the difference between book and market as a notional amount, and knowing the behavior of the underlying, whatever it might be, one would not have determined the value of the wrap, but only its maximum value. The actual value at any moment of a wrap also depends on the probability of a withdrawal and the probability distribution of withdrawal amount. It further depends on the experience-rating provision of the wrap contract. Finally, if the wrap contract is experience rated, the value also depends on the probability that the contract will mature before any book-to-market shortfall has been amortized. This is the only time that an experience-rated wrap results in an issuer payout.

**What is the payment provision?**

For an experience-rated wrap, in the “normal course,” there will never be a payment (other than the payment of the premium, which I discuss item 3).

The crediting rate mechanism is designed to assure that there is no book/market discrepancy at contract maturity. Wrap contracts that simply expire at maturity even when market is less than book, with no issuer payment, are not uncommon. Other contracts provide for contract extensions as needed to assure eventually convergence. It strains language beyond natural bounds to call such terms “payment provisions,” and, once again, cannot have been what FASB was trying to do in SFAS 133.

2. SFAS 133 states that a derivative requires no initial net investment or an initial net investment less than that required for other types of contracts expected to respond similarly to changes in market factors. The second factor is also problematic. A wrap contract requires the payment of a premium, so it has an initial investment. A wrap is a unique, plan-specific instrument, the value of which does not depend solely on factors in the financial markets. It cannot therefore be said that the premium is “smaller than would be expected for other types of contracts that would be expected to have similar responses to market factors.” Therefore, wrap contracts do not satisfy either of the two tests of the second requirement, and thus do not satisfy the definition of derivative.

3. SFAS 133 requires that a derivative’s terms require or allow net settlement. A derivative must be able to be readily settled net by a method outside the contract; or it provides for delivery of an asset that puts the recipient in a position similar to net settlement. No payment provisions of wrap contracts come close to satisfying this requirement. Most market wrap contracts permit termination by the buyer on notice and termination by the seller for certain enumerated reasons. When termination payments are required, they are universally a function of the premium rate. They do not take into account any changes in market factors or in the characteristics of the plan to which the wrap was issued. Indeed, as the discussion of wrap valuation above should have made clear, it would be impossible to reach a consensus on a fair payment. Certainly, the contract does not provide for such a payment. Therefore, a wrap contract does not satisfy the third requirement of the definition of SFAS 133 and is therefore not a derivative.

The clear import of SFAS 133 is that it was meant to refer only to instruments the value of which is determined solely by “market forces.” Market forces are no doubt hard to define with specificity, but certainly cannot be meant to include the underwriting characteristics of a particular defined benefit plan. This is the fundamental incongruity that the argument of the 133 Issue A16 cannot overcome.

Wraps are insurance contracts. There is a term for financial contracts where not only market variables, but also characteristics of the individual entity purchasing the contract, which require underwriting, determine cost: insurance. Relying both on my knowledge of wraps, and on my experience as a health benefits actuary, I believe that group long-term disability insurance provides

“Relying on both my knowledge of wraps and on my experience as a health benefits actuary, I believe that group long-term disability insurance provides the best analogy to stable value wraps.”

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The best analogy to stable value wraps. Nonexperience-rated wraps correspond to self-insurance with insured stop loss that kicks in at low levels of total claims. Experience-rated wraps correspond to self-insurance with insured stop-loss protection that kicks in only at very high multiples of expected claims.

Arguing by analogy, tax law permits the classification of reserves for noncancelable accident and health insurance as life company reserves if they are computed on the basis of health contingencies and are required by law. Wrap contracts are “noncancelable” in that the issuer generally cannot cancel a wrap contract before its stated maturity except for cause. The causes are nearly all related to planning for self-inflicted injuries. Underwriting is intended to assure that the insurer understands the nature of the risk and charges a premium appropriate to it.

The stable value option is the owner of the wrap contract, but is the one entity universally excluded in all wrap contracts from precipitating a payment on it! Even the most sweeping wrap contracts exclude coverage for plan termination and for plan changes which materially increase the issuer’s risk of payment. The disconnect between the owner and the beneficiaries of the wrap contract severely weakens the characterization of a wrap as a derivative. The analogy to a financial put is fundamentally flawed because it is the owner of a put who

decides whether or not to exercise the put and who benefits from the decision to exercise a put that is in the money.

For a covered participant, even one who, like a COBRA participant, is paying the full cost of group coverage, self-insurance is real insurance. It protects against the threat of financial ruin due to catastrophic health care expenditures by spreading the risk over a large number of participants. When the group as a whole has experience bad

enough otherwise to overwhelm the pool, the insured stop-loss protection steps in.

Insurance provides a natural context that helps us gain insight into the nature of the wrap, unlike the unhelpful attempt to classify it as a derivative. Further, our analysis of the wrap contract suggests a useful generalization: Contracts involving purchaser-specific risk are best understood as insurance, whatever their financial features. Contracts not involving purchaser-specific risk are better understood as general financial market instruments, a classification that includes derivatives.

To Experience Rate or Not? Essentials of Insurance Pricing

A risk that an individual or entity will wish to insure is first of all a risk that would be catastrophic, or at least seriously inconvenient, for the individual in the absence of insurance. The risk must be sufficiently improbable that its expected value in any year is low enough to be reasonably payable out of recurring income. Fire insurance for a home or business is a classic example of an insurable risk. Chemotherapy would for many be a catastrophic medical expense, but that does not make medical insurance available to someone who already has cancer, because the expected value of the treatment has become too high. Finally, discretionary actions of the insured should not be able to alter materially the risk the insurer has assumed. To return to the example of fire insurance, if an insured cuts down on fire prevention efforts, the contract should permit the insurer to raise the premium or to cancel the policy.

A fundamental principle of insurance is that an insurance premium will always be higher than the expected loss, because in addition to claims losses, a premium must also pay the insurer’s expenses and provide the insurer with a profit.
Application of Insurance Principles to Stable Value Wraps

Applying these principles to stable value wraps makes it evident that participants have no reason to pay more for a non-experience-rated wrap unless it results in higher expected crediting rates. An experience-rated wrap is sufficient to assure stability of principal. A pronounced change in the crediting rate will threaten the participant’s assessment of the option only when it lowers the rate so much that the rate fails to meet the participant’s expectation of a minimum margin over money market yields. Even this would not be a loss especially difficult to bear, since principal is preserved. No stable value option is a plan’s sole offering. Should the yield fall too far, the participant can transfer his/her balance to a different option, which he/she now values more highly.9

What crediting rate insurance fits the market demand for stable value?

Ideal Crediting rate insurance would protect stable value’s margin over money market returns at the cost of a modest sacrifice in the total expected excess return. If, for example, the long-term expected excess return, unwrapped, of a stable value option was 1.5%, the conservative investors who choose stable value might rationally choose to sacrifice .10%, to assure that the differential was never less than 1%.

Why would a rational stable value investor pay more for an experience-rated wrap? Only the purchaser who expects interest rates to move up more than market prices for wraps for wraps reflect will pay more. In general, managers without a view on movement of interest rates do a disservice to partici-

pants when they pay more for nonexperience rated wraps.

Any differential in cost that does not pay for an added guarantee must be fully recoverable in value, providing no additional contribution to insurer profit or expenses. The expected value of additional insurer transfers must equal the expected value of the increase in wrap charges.

Times Have Been Good; What Would Have Happened When They Weren’t?

No one disputes that the last few years were a very good time to have been in the business of selling nonexperience-rated wraps. The interest rate environments issuers have good reason to fear are those that occurred at the end of the 1970s and in the early 1980s, when the yield curve became severely inverted during a period of overall increases in the level of interest rates. Of course, the relevance of this analysis depends largely on how likely one estimates the chances of similar environments recurring.10

The graph on page 1911 shows that issuers would have faced significant losses on nonexperience-rated wraps, if participants had arbitrage opportunities using money market funds. In similar environments, modern stable value investors would not have available to them a money market alternative. Issuers require that participants not be able to transfer funds directly from a stable value option into a money market fund. Even in those few instances where there is both a stable value option and a money market fund, the participant must “wash” funds withdrawn from Stable Value in an equity option for 90 days before deposit in a money market fund.12

In the absence of the ability to transfer to a money market account, would there have been significant withdrawals from stable value funds, if they had existed? During recent periods of withdrawals from stable value, equities have moved sharply, but also steadily, upward. In the periods of interest rate inversion, equity market volatility was great, and long periods of negative returns were recent memories. That is an important difference.

My conclusion is that, even during the worst interest-rate environment in recent times for stable value, there is no reason to believe that there would have been significant withdrawals from the option. For participants who value safety of principal, the defining characteristic of the stable value investor, and who do not have the right to make direct transfers to money market accounts, there was no place to go. Further, participants may have well viewed their absolute level of stable value return as eminently satisfactory. From the beginning of the first period of rate inversion to the end of the second, stable value returns averaged 8.77%!

Issuer claims of the importance both of nonexperience-rated wraps, and of the overall riskiness of the wrap business, cannot be supported by reliance on a balanced evaluation of the period from 1978 to 1982, and certainly not by any subsequent period.

The Realities of the Marketplace

A “pure” version of a nonexperience-rated contract is rare indeed. Nearly all contracts, including GICs, require the plan to turn first to cash flows to finance withdrawals before access to the contract’s funds is possible. In a rising rate environment, net withdrawals will keep the rate on the fund from rising as money-market rates rise. A “pure” nonexperience-rated contract would increase expenses both for the issuer and for the manager, and both would want to recover those costs by increasing their charges to the plan.

Even “nonexperience-rated” after cash flows is increasingly unavailable at all for synthetic wraps.13 A manager with a
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strong preference for nonexperience rating of withdrawals would give for that reason alone a higher ranking to GICs as investments, intensifying credit and non-diversification risk, because GICs provide nonexperience rating of withdrawals. Based on quotation experience at my firm, those issuers who do offer nonexperience-rated wrap contracts charge an additional two to six basis points.

A rational manager who agrees with the analysis of wrap risk presented above would not choose to pay that premium, since that manager would conclude that the additional protection would be overpriced.

My conclusion is this: The realities of market pricing drive the rational manager to buy experience rated wraps in the typical wrap purchase situation.

The Theoretically Ideal Wrap
The standard in analysis of benefit programs should be legitimate participant expectations. What participants expect of a stable value option is safety of principal and an excess return, with respect to money market funds, in the range of 1% to 2%. Simply put, the ideal wrap contract would ensure that the effects of withdrawals would never deprive participants of what they expect from the stable value option.

A contract that ties the degree of experience, rating to the effect of withdrawals on the crediting rate meets that test. The crediting rate would be compared to money-market returns plus an increment ranging from 0% to 1%. The issuer would make any payment required to keep withdrawals from driving the crediting rate below the reference rate. All other withdrawals would be fully experience rated.

A hybrid contract of this type would be likely to lead issuers to require tighter investment guidelines, and permit them to require changes at a minimum in portfolio duration as the crediting rate approaches the reference rate.

Such a contract would provide both participants and the issuer with superior protection against the risk that an anti-selection death spiral will lead to a catastrophic meltdown of the kind that issuers profess to believe would have occurred in the late '70s and early '80s. While changes in the interest rate environment could still lead to crediting rates below the reference rate, participant withdrawals would not exacerbate the situation. At any level of interest rates, even zero, there will be some non-zero level of at least relative equilibrium, where slow decay replaces the stampede to exit. The higher the crediting rate, the higher the level of relative equilibrium, and the lower the losses of the issuer, the larger the fee bases of both the manager and the issuer, and the faster the option will return to the reference rate and above.

A critical advantage of what I call a “crediting rate hybrid” is that it minimizes the importance of issuer/manager differences on the value of the catastrophic risk, because it substantially reduces the likelihood that the catastrophic risk will materialize.

An added advantage to the plan is that, precisely for this reason, and depending on the level of the increment used to set the reference rate, a crediting rate hybrid should be cheaper than existing experience-rated contracts. Existing experience-rated contracts would further depress rates already below money market rates, accelerating the stampede to the exits and locking in issuer losses. In my view, the reference rate can be set at a level that will include sufficiently few losses in the way of noise that the gains in catastrophic protection will more than offset them.

However, the higher the reference rate, the more a manager can rationally choose to pay a wrap premium that actually reduces expected participant return. For example, if the reference rate is money market returns plus 1%, the manager has purchased a contract that substantially increases the likelihood that the option will always meet the participants' return expectations. The contract thus has higher utility to participants than a fully experience-rated contract, and the manager can rationally choose to pay more for it. Such a contract offers an issuer an opportunity for a risk charge and risk profit that other contracts do not.

Crediting rate hybrids thus offer an opportunity to improve the value of a Stable Value option to participants while reducing the friction that differences in pricing perspectives introduce in negotiations about wraps between managers and issuers.

Conclusion
In this article, I we briefly introduced the stable value option and examined the expectations participants have of the option. I discussed the characteristics of the wrap contract, seeking additional understanding by examining the factors influencing pricing, and concluded that a wrap is not a derivative, but an insurance contract. I reviewed the basic principles of insurance pricing and applied those principles to wrap pricing, concluding that the realities of the market place often lead the rational manager faithful to its fiduciary responsibility to participants to buy experience-rated wraps. I ended by
describing a theoretical ideal wrap, the crediting rate hybrid, and concluded that the crediting rate hybrid offered a way out of the wrap pricing impasse that would enhance the value wrap contracts offer to participants in a stable value option.

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Endnotes
1) The author is Counsel, Product Initiatives, INVECSO Fixed Income. He is a graduate of Dartmouth College, and has his J. D. and Ph. D. degrees from Yale University. He is a Fellow of the Society of Actuaries and of its Investment, International and Health Sections, and also a member of the American Academy of Actuaries. He holds the CFA designation. He is a member of the New York and Connecticut bars. He has written extensively about stable value and other investment issues, as well as about tax and health care policy. He expresses his thanks to Kim McCarrel, for her extensive comments on an earlier draft, and to Robbi Ray, for her technical assistance.

2) According to the Stable Value Investment Association, in 1998 stable value constituted 16% of defined contribution plan assets, or $182 billion.


5) There is unfortunately variation in nomenclature that causes confusion. For nearly all disaggregated wraps, the interest credited to participants varies with the value of the underlying investment. Such a wrap is generally called “participating,” which means it participates in investment results. However, some use the word “participating” to refer to participation in the effects of withdrawals, what I have chosen to call “experience-rated,” adopting the more prevalent convention.

6) IRC § 816(b).

7) For example, the age and income of the participants, the financial health of the plan sponsor, the industry sector, indeed the health status of the employees, since both death and disability give rise to qualified withdrawals in defined contribution plans!

8) As an aside, it is the failure of advice providers to appreciated the value of the self-insurance that is the primary characteristic of the stable value wrap that leads to their failure to give due credit to the wrap’s dampening of return volatility.

9) Looking at the problem of crediting-rate movement and insurable interest in this light shows that issuers have the clearest insurable interest, followed by stable value option investment managers. I shall return to this point, when I argue for a wrap contract not currently available that would maximize utility for all parties economically affected by the contract.

10) I believe that globalization of finance has worked a shift in paradigm that makes extreme interest rate volatility of a major global markets participant, like the United States, much less probable, if not actually impossible.

11) See above page 4.

12) This restriction does not apply to retired participants, who can “roll-over” their plan assets into money market IRAs. However, a retired participant cannot return to the plan once the period of rate inversion has passed. A retiree with funds in stable value will know the long-term advantage of stable value from personal experience, and is unlikely to be willing to sacrifice that long-term advantage for a temporary gain.

13) For example, of the issuers from which PRIMCO Capital Management buys wraps, only one is willing to sell non-experience-rated wraps.

14) See above page 10.

15) The manager might rationally believe that a noneexperience-rated wrap should be cheaper than an experience-rated wrap. See above page 5.

16) See above page 2, and my article “What AICPA SOP 94-4 Hath Wrought: The Demand Characteristics, Accounting Foundation and Management of Stable Value Funds” BENEFITS QUARTERLY, (1Q2000), 16:1.

17) See above page 2.

18) Existing synthetic contracts usually give issuers the right to require changes in the composition of the portfolio when a recalculated crediting rate would fall below some stated absolute level, usually 2%.