Deferred Compensation Commission Update on Market Value Adjustment

November 3, 2006

The Deferred Compensation Commission is aware of the concerns participants have voiced regarding Nationwide's withholding of an $18.6 million "market value adjustment" when it transferred fixed annuity assets to the new contractor, ING. If you were a participant in the Nationwide fixed annuity, ***the most important message for you is that your account balance transferred to ING at 100% of its value.***

Why did the Commission choose a new vendor?

It had been ten years since we last bid the contract and the Commission wanted to achieve several goals with the new contract:

A) Establish a fixed cost for the Third-Party Administrator (TPA) - formerly PEBSCO, now CitiStreet. By bidding a fixed fee, the cost to the participants is very likely to go down as the assets in the Plan increase, unlike the former contract where costs were based on a percentage of assets.

B) The Commission wanted to bring to the Plan several new features, which they could not include under the old contract - in addition to the cost reduction mentioned above. These features are:

- Establish a fixed annuity where the Plan is not a general creditor. If the insurance company ran into financial difficulty, the Commission wanted the Plan's assets protected. With ING, the Plan's funds are in a Separate Account, protected from ING's creditors.
- Help participants make better investments choices using tools like Financial Engines
- Allow participants access to a Self Directed Account that makes available nearly any mutual fund, stock or bond that the participant could want

Will the Commission try to recover the market value adjustment?

Yes. The Commission is currently in litigation with Nationwide and is consulting with the Attorney General's Office on this matter.

What effect did Nationwide's withholding of the market value adjustment have on my account?

As emphasized above, your account was transferred to ING at 100% of its value. ING is providing all the participants with the contractually required minimum interest rate on their accounts. ING, however, is permitted to exceed the minimum rate if the market rate permits such an increase. This "increased" interest rate is slightly less than it would have been without M.V.A. Since ING's interest rate is approximately 1% higher than Nationwide's was, participants will still receive a very competitive rate of return.