What Is my Account Really Worth?

Understanding the difference between AUV and NAV

Special Report

The newspaper reports that one of your chosen retirement program investment options has increased to $30 per share. However, when you check your retirement account online it says $22 per unit. Why are these values different?

Defining the disparity

These two figures represent different units of value. While the $30 figure in the newspaper represents the mutual fund's Net Asset Value (NAV), the $22 amount states the Accumulation Unit Value (AUV).

Both are units of value used to determine the daily worth of customer accounts. **NAV** is the **measure of value for shares** of a mutual fund, while **AUV** is **the measure of value for units** of a Separate Account.

Net Asset Value (NAV):

A mutual fund issues and sells shares of its own stock. An open-ended fund will continually issue as many shares as investors are willing to buy. The assets underlying these shares make up the fund's investment portfolio. Therefore, an investor who buys shares of a mutual fund owns an interest in the fund's portfolio, but does not own an interest in any particular security. A mutual fund determines the NAV per share in the following way:

- Establish the market price of each security in the portfolio as of the close of the stock market and add these values together to arrive at the total asset value of the fund's portfolio.
- Add other current assets and subtract liabilities to arrive at total net asset value.
- Divide net asset value by the number of mutual fund shares outstanding to determine NAV per share.

So if the market value of a fund's portfolio goes up, the NAV per share will also increase. Alternatively, if the total value of the fund's portfolio drops, the NAV will decrease. A fund must determine its NAV at least once each business day, usually at the close of the New York Stock Exchange (4:00 p.m. Eastern Time).

Accumulation Unit Value (AUV):

An AUV is a reflection of the underlying Fund's daily performance, plus any applicable dividend income, less the daily Separate Account charge.

Separate accounts

A Separate Account is an account established to hold pooled money earmarked for investment through products offered by insurance companies. A Separate Account can invest the funds allocated to the variable investment in one or more underlying mutual funds.

When you invest in a Separate Account, you do not buy shares of the underlying funds. Instead, you buy units of the Separate Account which invests in shares of the funds offered through the insurance company product. The Accumulation Unit Value ("AUV") is the value of each unit of the Separate Account invested in the funds. The following diagram illustrates these concepts:

Contractholder/ Participant	Units / AUV	Separate Account	Shares / NAV	Variable Funds

The Separate Account determines the AUV using a complex formula involving the value of the shares of the underlying fund, the fund dividends, and the product's Separate Account charge. When a company's Separate Account begins investing in an underlying fund, it generally will start the Separate Account AUV at an arbitrary price. Often the fund has been in existence prior to the inclusion as a Separate Account option and its NAV can be significantly different than the Separate Account AUV starting point. The Separate Account variable investment option's AUV is determined once each business day, generally at the close of the New York Stock Exchange (4:00 p.m. Eastern Time). Accumulation Units are valued separately for each variable investment option.

The effects of dividends

Mutual Funds and NAV

Mutual funds generally distribute capital gains on investments and dividends from investment income at least once a year. When this occurs, the NAV (or price) of the fund is reduced by the amount of the distribution.

Mutual fund customers may receive the dividends in cash, or may elect to have them automatically reinvested in the mutual fund to purchase additional shares at the new reduced NAV. If a mutual fund shareholder elects to receive the dividend in cash, the cash value in his or her account will decrease by the total amount of the dividend distributed to him or her.

On the other hand, if a mutual fund shareholder has dividends automatically reinvested back into the mutual fund, the total account balance will remain the same as before the dividend was declared. The reinvested dividends purchase additional shares at the new reduced price. Therefore, the customer now has more shares, but each share is worth less than before the dividend was declared.

Annuities and AUV

Since the Separate Accounts own the shares, it can choose how to deal with dividend or income distributions from the funds. For tax reasons, the Separate Accounts generally choose to use these distributions to increase reserves under the contracts. Therefore, there is no effect on a sub-account's AUV or the number of units outstanding due to receipt of distribution from the underlying fund.

While the distribution of the dividend decreased the NAV by the amount of the dividend, it had no effect on the AUV. That is, while the NAV method decreases the share value and increases the number of shares owned, the AUV method keeps the values the same as they were before the dividend was declared.

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