

STABLE VALUE – AN INVESTMENT SOLUTION WORTH KNOWING

WHERE ARE STABLE VALUE PRODUCTS OFFERED?

Stable value is an investment product offered only in tax qualified plans, namely defined contribution and 529 education savings plans. First introduced in the 1970s, today assets in stable value products total more than \$800 billion¹ with 78% of retirement plans offering a stable value fund option².

WHAT ARE THE BENEFITS OF STABLE VALUE?

Plan sponsors offer stable value to their participants, and participants invest in stable value as it provides a distinctive combination of benefits:

1. Principal preservation
2. Consistent, positive returns
3. Liquidity for participant benefit payments

HOW DO STABLE VALUE PRODUCTS WORK?

Stable value products provide an attractive principal preservation investment, insulating participants from day-to-day market volatility while providing steady returns and readily available liquidity for plan participants. In order to provide these benefits, stable value products may utilize one or more types of stable value investment contracts. These contracts are issued by creditworthy insurance companies or banks and provide a financial commitment that participants are credited a minimum rate of interest (no less than 0%) and may withdraw their balances at contract value (their deposits plus accrued interest), rather than the market value of the assets backing the contract. Like a bond fund, stable value products are able to take advantage of the term premium, credit and convexity risk premiums, and the spread differential over similar duration U.S. Treasury bonds. Unlike bond funds, stable value products are also able to offer day-to-day principal preservation via the contractually set crediting rates provided by the stable value contracts. Through these features, stable value contracts provide day-to-day principal preservation with long-term rates of return that are consistent with those of intermediate-term investment grade bonds.

Stable value products benefit from unique accounting standards³ available to defined contribution savings plans that allow contract value accounting for stable value portfolios, rather than the mark-to-market accounting required for most other plan investments. This accounting standard allows stable value products to amortize the market value gains and losses from the underlying fixed income portfolios over time, thereby smoothing the returns earned by plan participants and insulating them from daily market volatility. This ability for stable value products to provide bond-like returns with very low return volatility provides investors a very attractive risk/return profile.

In addition, stable value products commonly provide plan participants with the flexibility of daily liquidity for benefit payments. Typically, the only restriction on a participant's stable value transactions is a prohibition of direct transfers from a stable value investment directly into another investment product that provides a similarly low risk profile (which are deemed to be a competing fund) such as a money market fund. This restriction is put in place to prohibit arbitrage, which negatively impacts the returns and cash flows over the long term.

WHO USES STABLE VALUE?

Stable value investors have historically included those with a conservative risk tolerance, as many tend to be near or in retirement. Stable value products' principal preservation objective, steady rate of return, and compelling risk/return profile make stable value investments ideally suited for plan participants seeking to protect their retirement savings and provide a source of income during retirement. With increased usage of stable value within customized asset allocation solutions offered within retirement and other defined contribution savings plans, younger investors are also discovering stable value's benefits and critical role in their retirement portfolios and 529 education savings plans.

As a result of increased education of advisers and plan participants, more retirees are expected to keep at least some portion of their assets in their defined contribution plans post-retirement. For investors at this stage of their investing lifecycle, it is important to understand that stable value products are not available outside qualified retirement plans and, thus, are not available within IRAs. If a plan participant chooses to roll over his or her assets to an IRA, he or she will lose the ability to access stable value investments.

Stable value is a great "all weather" solution as it has withstood the test of time through many challenging market cycles over the past 50 years. The consistent, low-volatility contract value returns make stable value a good source of retirement income as well as a safe option to provide downside protection, especially during periods of market volatility.

1. SVIA 2019.
2. Deloitte 2019 Defined Contribution Benchmarking Survey Report.
3. FASB Accounting Standards Codification Guidance for fully benefit-responsive investment contracts; GASB Statement 53.