

Stable Value

Is Your Plan Offering the Right Capital Preservation Option?



Stable value funds are popular as a conservative investment option in defined contribution (DC) retirement savings plans—all the more so since regulations impacting money market funds took effect in 2016. To learn more about stable value's enduring appeal—and why it makes sense in today's investment climate—PLANSPONSOR spoke recently with Tom Schuster, vice president and head of Stable Value and Investment Products at MetLife, a leading stable value provider, and Warren Howe, MetLife's national director for Stable Value Markets.

PLANSPONSOR: If you're a plan sponsor offering a money market fund as your capital preservation option, is this a good time to consider replacing it with a stable value fund? If so, why?

Tom Schuster: It made sense before the money market rules went into effect, and it makes even more sense now. For starters, stable value has decisively outperformed other capital preservation options. Our client data show that for the 10-year period ending December 31, 2017, stable value outperformed inflation by more than one percentage point per year, while money market funds lagged inflation by 120 basis points [BPS]. So, on an absolute basis, stable value outperformed money market funds by about 230 basis points per year. This is achievable because stable value is only available in tax-qualified plans, and can use the tax and plan provisions available in those plans to go out a little longer on the yield curve.

PS: Apart from returns, how do stable value funds compare to other capital preservation options?

Warren Howe: Stable value has consistently outperformed other short-term

fixed income options, not only with higher returns but also with lower volatility—all while providing equivalent levels of liquidity. It has always provided the funds required for participant transactions. Stable value also has a lower correlation to the returns of other asset classes offered in DC plans, which makes it a better diversifier. Finally, stable value has a 40-year track record of preserving principal and providing an attractive return on investment, no matter what the market conditions. Along with a return that outpaces inflation, I think one of the most important aspects of stable value is that it performs as designed in all market conditions so it's there for participants when they need it.

PS: What are investment advisers saying? Wouldn't they be recommending stable value if they bought into these arguments?

Schuster: In fact, advisers do recommend stable value—often. But there's a disconnect between what they recommend and what plan sponsors are doing. MetLife's 2017 Stable Value Study found that 73% of sponsors who offer stable value, and 67% who offer money market, said their advisers recommended those options to them. However, 90% of advisers report recommending stable value very often, while 86% say they seldom or never recommend money market funds. This indicates money market funds are seldom or never recommended, according to advisers, yet are perceived by plan sponsors to be strongly recommended by those same advisers. It is important that advisers communicate the advantages of stable value, supported by compelling data, and make sure their clients understand it.

PS: Target-date funds [TDFs] are capturing the bulk of the new money going into DC plans. Is there a role for stable value there?

Howe: Absolutely. We see growing interest in using stable value as the fixed-income component in TDFs in lieu of money market or short-term bond funds, not only because stable value offers higher returns but also because it's less volatile. Plugging in stable value gives target-date fund managers two choices, either to increase returns while reducing risk, or to reduce risk without decreasing returns. This would benefit participants. It's worth noting, by the way, that stable value can work in either a custom or off-the-shelf TDF structure.

PS: What's holding some plan sponsors back from offering stable value? Is there a need for better education?

Schuster: We need to encourage greater appreciation of stable value's risk and return profile. Fifty-six percent of the plan sponsors we surveyed were aware that stable value returns outperformed money market returns over the past 15 years, but 84% did not know that stable value returns exceeded inflation over that same period.

PS: Do you see the asset class growing?

Schuster: With approximately \$734 billion in assets as of Q1 2018, it's clear stable value has earned the trust of plan participants. We believe it has a long and bright future, because it offers benefits that participants value. ■

