Choose Stable Value Funds For **Steady Growth, Capital Preservation**

Most retirement plans offer a capital preservation option, usually a money market or stable value fund.

Both options offer these benefits to participants:

- **Low risk**
- **Preservation of principal and accumulated interest**
- **Ability to withdraw their money at any time**

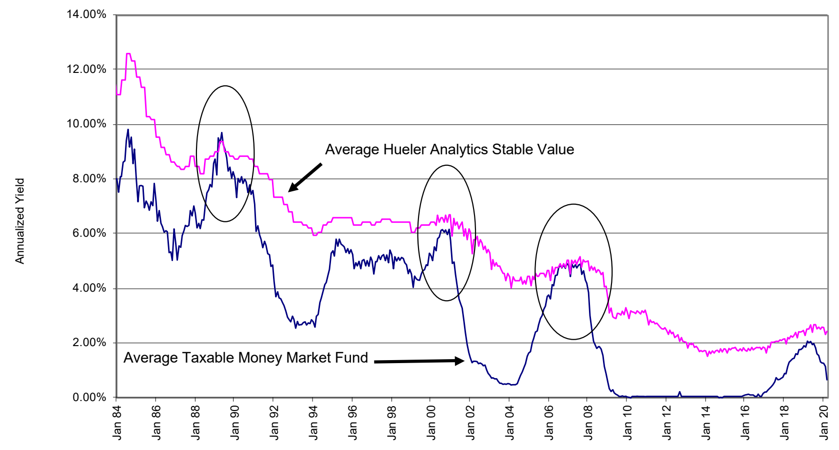
But which of these options offers higher returns?

Historically, fixed stable value funds have had higher returns. They're also typically less volatile than money market funds.

During the past 34 years, there have been only a few periods when money market fund yields have neared stable value crediting rates, generally during fast-rising rate environments.

For employers who want to help risk-averse employees experience steady growth and preserve their investment, stable value funds are a great solution.

History of Stable Value and Money Market Yields



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Crediting Rates: **Understanding Different Structures**

A stable value fund's crediting rate determines the overall return that participants earn in addition to their principal.

Stable value products basically come in two structures — daily crediting rate and guaranteed fixed-rate.

Daily crediting rate

Daily crediting rate products are variable and don't offer participants a guaranteed rate. It's the same as investing in any stock or bond fund — you don't know what your investment will earn until after the fact.

Guaranteed fixed-rate

Fixed-rate stable value products, like those from The Standard, are different. They're one of the only retirement plan investment options that offer a guaranteed rate of return. And they announce a crediting rate in advance for a set period — quarterly, in our case.

How Do Changing Interest Rates **Affect Capital Preservation Funds?**

Changing interest rates have a direct effect on capital preservation products. This will differ based on the investment strategy of the product.

Let's look at the effect of changing interest rates on money market funds and stable value funds.

Money market funds

Money market funds invest in short-duration investments like treasury bills, so changes in interest rates are felt more immediately. The effect can be positive or negative, depending on the direction of rates. Short-term investments generally provide a lower return than alternatives with longer-duration investment strategies.

Generally, the longer the maturity, the higher the return.

Stable value funds

Stable value funds, in contrast, typically invest in longer-maturity fixed-income products like intermediate term bonds and commercial mortgages. These longer-maturity investments generally provide higher returns compared to short-term investments.

As interest rates for these investments fluctuate, the crediting rate will adjust accordingly. However, the changes in interest rates will be felt more slowly compared to money markets because the investments are longer-duration.

What's a **Wrap Provider?**

Stable value funds feature an insurance covenant called a "wrap." There are two key functions of a wrap contract:

1. The wrap issuer provides book value accounting, which smooths out the volatility over the duration of the underlying portfolio.
2. The wrap provider pays if the underlying assets aren't sufficient to meet withdrawals.

Wrap contracts are issued to the collective trust and are not transparent for fiduciary review. It's important for fiduciaries to understand the terms under a wrap contract.

Insurance company stable value fund

An insurance company stable value product is not a wrap product. It's backed by the financial strength and claims-paying ability of the insurance company. Insurance companies are highly regulated and required to have substantial capital to support their guarantee to investors. Standard Insurance Company maintains 300% in excess of capital reserves and surplus.

Participants receive a guaranteed rate while they're invested in the fund. Crediting rates are usually announced in advance — before each reset period — and will not change during the guaranteed period. Some products also offer a guaranteed minimum crediting rate, which is the lowest contractual rate a participant can receive.

Commingled stable value funds

Commingled, or multi-wrap, funds offer wrap contracts by many insurance companies, rather than one. The portfolios are made up of mostly fixed-income securities and don't offer any guaranteed rates of return.

Their performance simply reflects the investment manager's investing ability. These products also don't offer any minimum guaranteed rate interest rate floor.

Guaranteed Insurance Accounts, Commingled or Separately Managed Accounts

Stable value funds can be structured in a few ways. The most common are guaranteed insurance accounts and commingled funds. A third structure — separately managed accounts — is available for plans with generally more than $250 million in assets.

Learn the features of each type of account to help clients make the right choice.

Guaranteed Insurance Accounts

In a guaranteed insurance account structure, a single insurance company guarantees the plan's principal and accumulated interest based on the strength of the entire company. The insurer manages the fund's investment portfolio within its general account. It also generally offers that the crediting rate will never fall below a set minimum rate.

These products, like those offered by The Standard, offer a direct guarantee between the insurer and the plan sponsor.

Commingled funds

A commingled fund, usually run by a stable value manager, holds the assets in a single investment trust. The fund may be allocated across several investment managers and includes the assets of unrelated retirement plans.

Separately managed accounts

Separately managed accounts are typically available only to plans with very large stable value balances. The assets are held in an account separate from the general account of the insurer or bank.

Understanding **Stable Value Termination Provisions**

Before utilizing a stable value fund, plan sponsors should be aware of a product's exit provisions. Most contracts include plan-level provisions when a plan sponsor wants to terminate the stable value contract.

Plan sponsors may want to exit a contract to move to a different capital preservation product. Or maybe they need to roll the assets into a new plan because of a merger or acquisition.

Most products provide an immediate payout at book value — principal and accumulated interest — or after a certain period of time.

A put

A typical provision may require the plan sponsor to wait a set period of time before moving the assets from one product to another. The delay, or put, could last one year, three years or five years, for example. Plan sponsors with this provision would have to wait that amount of time before the assets could be moved.

Generally, participants may continue to buy and sell at book value, even during the put period.

Adjustments due to plan level discontinuation

During a period of rapidly rising interest rates, some stable value funds experience an adjustment to earnings after a plan level discontinuance. This is called a market value adjustment.

Or many products offer a book value payout over time. With these products, it's important to confirm that they are portable in the event of a change in recordkeepers during a period of rising interest rates. It's generally not prudent for fiduciaries to liquidate their guaranteed contract under a rising interest rate environment.

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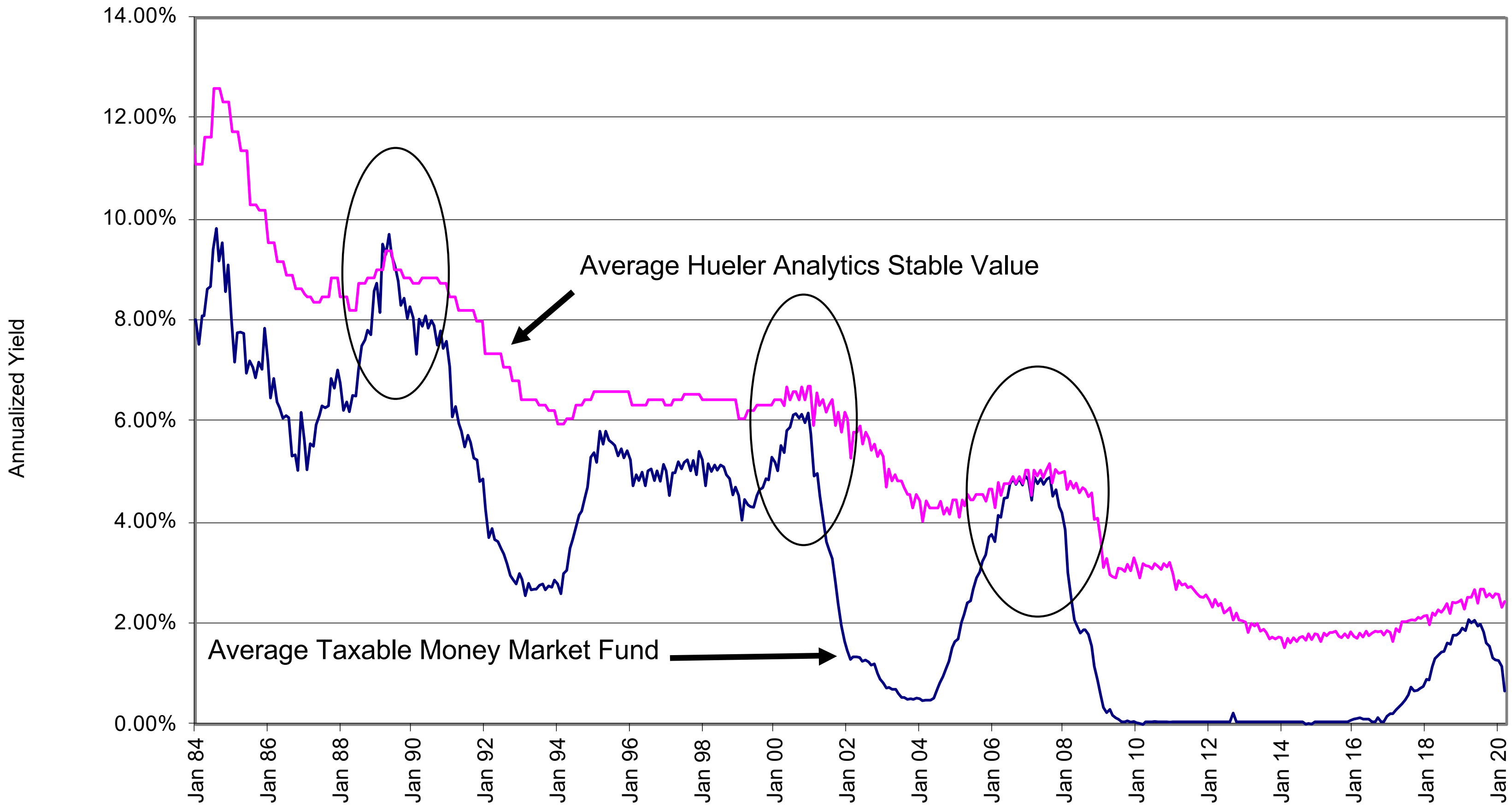

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More Worth Knowing About Stable Value Funds

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RP **21203** (05/20)