Paradigm Shift: Changing Demographics Bode Well for Stable Value

By Randy Myers

The stable value industry has benefitted from data showing that stable value funds historically have generated higher returns than their chief competitors, money market funds. It's a good marketing pitch, and an especially potent one right now, as money market returns have hovered near zero percent for the past four years. But Michael Davis, head of the stable value business for Prudential Retirement, argues that the industry is short-selling itself if it makes that distinction the focus of its marketing efforts.

Returns that outpace those available from money market funds, Davis told participants at the 2013 SVIA Fall Forum, merely represent the tactical case for stable value funds. "This is not where we as an industry want to be making our case," he said. "If we do, we're only making half the case we should be making. There are more fundamental reasons to be in stable value."

Those reasons include, of course, principal preservation guarantees and steady returns that, while outpacing money market returns, have at the same time exhibited similarly low volatility. Those characteristics, Davis said, make stable value attractive to retirement plan participants who are conservative investors, are at or near retirement age, those that need to diversify their retirement investment portfolio, or are seeking attractive, risk-adjusted returns as part of an overall asset allocation strategy.

Davis emphasized that there are also important demographic shifts taking place in the U.S. that should ensure a receptive market for stable value funds for decades to come. According to projections by the Census Bureau, the fastest-growing age group in the U.S. between now and 2050, on a percentage basis, will be those age 85 and older. And by the end of that period, Americans 65 and older should account for 20 percent of the population, up from 10 percent in 1970 and 13 percent as recently as 2009.

That's a promising trend for the stable value industry, which historically has captured the bulk of its assets from older retirement-plan participants. Research by the Employee Benefit Research Institute, for example, shows that in 2011, 401(k) plan participants in their 20s allocated just 7.1 percent of their plan assets to stable value. That percentage increased with every age cohort, however, peaking at 30 percent for participants in their 60s.

The impending retirement of the 76 million Baby Boomers born between 1946 and 1964 also suggests there will be plenty of people looking for conservative investment options in the decades ahead. Equally noteworthy, younger plan participants are sensitive to the need to save for retirement, and also receptive to the appeal of conservative investment options such as stable value funds. A 2012 study by Prudential Retirement found that 83 percent of Millennials—loosely defined as the 86 million Americans born from the early 1980s to the early 2000s—said that seeing what can happen to people who don't save enough for retirement makes them want to save more for their own retirement. And 81 percent said contributing to one's retirement account is a must, even during an economic recession.

"They're a generation of savers," Davis said of the Millennials. Pair that character trait with the fact that many are carrying burdensome levels of student loan debt, he added, and it's not surprising that many of them tend to be conservative investors, too. In fact, in a 2013 study by Accenture, 43 percent of Millennials identified themselves that way, versus 31 percent of Boomers and 27 percent of Generation X investors, the generation born immediately after the Baby Boomers.

The trend toward an older population, which is being mirrored in many other countries around the world, coupled with the mindset of the Millennial generation, suggests that conservative investments, centered on fixed-income securities, will play a prominent role in the retirement savings marketplace for decades to come, Davis concluded.

"A lot of people are saying that the really interesting things are going to be happening in the next few decades within the fixed-income arena," Davis said. "I would absolutely agree with that, and I think stable value is better positioned than any other fixed-income option to meet the needs of investors."

Attendees at the Stable Value Investment Association Fall Forum 2013