Survey Offers Clues to Broader Adoption of Stable Value Funds

By Randy Myers

Stable value funds are a core component of the defined contribution plan marketplace. Addressing the 2013 SVIA Fall Forum, Robin Andrus, director of stable value marketing for Prudential Retirement, noted that stable value funds are offered by about half of all defined contribution plans, and represent about 20 percent of the total assets in those plans. From 2000 through 2012, assets in stable value funds more than tripled to $701 billion.

Still, that leaves millions of participants in defined contribution plans without access to a stable value fund. Last year, Prudential surveyed more than 300 plan sponsors and 200 intermediaries, including investment advisors and consultants, to learn more about why some of them adopt stable value funds and others do not. A key goal of this research was to glean insights into how the industry might spur broader adoption of the asset class.

Familiarity with the asset class was the key differentiator between adopters and non-adopters, the survey found. The more familiar they were with the asset class, the more likely plan sponsors were to offer it to plan participants, or, in the case of intermediaries, the more likely they were to recommend it to their plan sponsor clients.

Complexity of stable value funds was a key barrier to adopting stable value, as were concerns about their fees and the strength of their guarantees. Intermediaries also cited concerns about liquidity, or the difficulty of transferring money out of the funds under certain circumstances. Plan sponsors who don't offer stable value mentioned liquidity concerns too, as well as a lack of familiarity with the funds among plan participants, their own insufficient understanding of the funds, and concerns about the transparency of fees, the stability of the bank or insurer providing the fund's guarantee, and the difficulty of adding stable value to their existing investment menu.

Intermediaries who consistently recommend stable value to their plan sponsor clients said their top reasons for endorsing the asset class include its ability to preserve capital while providing steady returns, the historically better long-term returns stable value funds have delivered relative to money market funds, and the return guarantees that stable value funds offer.

Plan sponsors cited similar reasons for offering stable value funds in their plans, including better returns than other fixed-income investments and money market funds, the proven financial stability of their fund's insurance provider, and recommendations from financial advisors and benefits consultants.

Plan sponsors who don't currently offer stable value indicated that education is a critical component to wider adoption of stable value funds, Andrus noted. Because they consider their retirement plan providers and intermediaries, such as financial advisors and benefits consultants, as primary sources of information, the stable value industry has an opportunity to promote wider adoption of its products by targeting educational efforts at them. Intermediaries said they consider meetings and in-person conferences as the best places to learn more about stable value funds, followed by plan provider websites and hardcopy brochures.

"The biggest issue cited by those who have not adopted stable value was familiarity with the asset class; that determines whether adoption is going to happen," Andrus summarized. "And the biggest barrier to familiarity is the complexity of the asset class. That's why education is key." SVIA

Survey Shows Consistent Allocation to Stable Value Over 20 Quarters

By Gina Mitchell

The SVIA Stable Value Funds Quarterly Characteristics Survey just hit a milestone. The survey, which covers the synthetic portfolios of 23 stable value managers, now has 20 quarters under its belt. It was first run covering the fourth quarter of 2008 and now covers all the way to the third quarter of 2013. The survey shows a consistent and steady allocation to stable value, with assets under management that totaled $347 billion in the fourth quarter of 2008 and which have risen to $459 billion in the third quarter of 2013; a 32 percent increase for the 20 periods. The survey found that the third quarter of 2013 crediting rates had a weighted average of 2.08 percent, which remains significantly higher than returns from money market funds. SVIA