Awakening the Super Saver

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Center for Retirement Studies in 2011, Nybo said, about 20 percent of those polled had built spending and savings habits that would afford them a financially secure retirement. These people were not characterized by exceptional educational levels or earnings, but rather by giving priority to consistent saving.

The lesson, he said, is simply that it is possible for many people to save adequately. And they have the tools to do it, he insists, in the form of defined contribution plans like the 401(k). While it is customary to complain that the 401(k) plan is failing the retirement needs of Americans, Nybo said some of the numbers frequently cited to support that argument are misleading. For example, data from the Employee Benefit Research Institute indicate that the average 401(k) account balance is about $60,000. But that doesn't take into account the fact that many people have access to more than one 401(k) account, including some domiciled with former employers, and to IRAs and accounts held by spouses. In fact, he said, the average accumulated total retirement assets for people over age 60 in 2010, including traditional and rollover IRAs, was about $275,000. "And I believe it is well over $300,000 now, which is still insufficient," he noted. He added that participants currently are deferring 3 percent of salary into their plans (in line with what companies typically match), but that it should be 6 percent. Additionally, he said, auto-escalation is 1 percent per year, but should be 2 percent.

Still, given the projected cost of healthcare alone in retirement, it's clear that most Americans need to save more. In searching for ways to change their behavior, Nybo said he and Alexander were inspired by previous public service campaigns that had successful outcomes. Among these was an anti-littering campaign launched in 1971 that was spearheaded by a television ad featuring a Native American with a tear in his eye as he surveyed scene after scene of littering. Surveys indicate that from 1969, just before the ad's launch, to 2009, littering in the U.S. decreased by 61 percent.

It turns out, though, that littering didn't go down just because people were advised to stop doing it, but also because communities made it easier for people not to litter by making waste receptacles much more widely and readily available—much the way automatic enrollment in 401(k) plans make retirement savings more widely and readily used.

Nybo is pushing the financial services industry to launch a public service campaign that will rival the successful anti-littering campaign that started in 1971. He is also promoting financial literacy classes in the nation's high schools. The consequences of failing in these efforts would go beyond financially difficult retirements for older Americans, he warned, since their reduced spending power would also harm the country's consumer-driven economy.

"It's a massive issue, the biggest social issue of our time, and it's our responsibility," Nybo told his SVIA audience.

Attendees at the Stable Value Investment Association Fall Forum 2013

Stable Value: Challenges and Opportunities

By Randy Myers

By almost any objective measure, the stable value industry is doing well. From 2000 through 2012, assets in stable value funds increased significantly to an all-time high of $701 billion. This represents about 14 percent of the $5.1 trillion of assets in defined contribution plans at the end of that period. Stable value wrap capacity, which became constrained following the 2008 credit crisis, has rebounded. A survey conducted in 2012 indicated available wrap capacity of about $100 billion, and year-to-date industry sales statistics support that finding.

But while stable value remains "the safe asset class of choice," the industry cannot become complacent, James J. King Jr., chairman of the Stable Value Investment Association, said in his opening address to the 2013 SVIA Fall Forum, Putting Together the Pieces of a Financially Secure Retirement. Target-date funds continue to gain market share in the defined contribution plan marketplace, for example, and from a modest start in 2008 have grown to more than $500 billion in assets as of the first quarter of 2013. Yet stable value funds are sparsely represented in those investment vehicles. More recently, a number of financial services firms have introduced guaranteed income products for the defined contribution plan market, and while sales have been modest so far, they represent another type of protected investment that could compete with stable value.

"Our challenge is not only to keep our market share, but to grow it," King told his audience. "And to grow it, we're going to need to be creative, we're going to need to be adaptive, and we're going to need to react effectively to changing conditions." As part of that effort, he said, stable value providers will have to work with others in the defined contribution industry to encourage retirement plan participants to save enough money for retirement.

"The defined contribution industry is in competition for savings dollars," explained King, who is also managing director and senior client

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The Big Picture: Trends in Defined Contribution Plans

By Randy Myers

From the left: Elizabeth Heffernan, Fidelity Employer Services Company; Sara Richman, Great-West; Philip Maffei, TIAA-CREF

Investors in 401(k) plans may not be saving enough for retirement, on average, but they're saving more than headline numbers would suggest.

In a wide-ranging panel discussion at the 2013 SVIA Fall Forum, Elizabeth Heffernan, vice president of investment product management at Fidelity Investments, said the average account balance in plans for which Fidelity provides recordkeeping services is about $80,000. But that figure has been depressed, she observed, by the trend among plan sponsors to adopt automatic enrollment policies. Automatic enrollment brings into their plans new participants with very low account balances.

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Challenges and Opportunities

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portfolio manager in the Stable Value Markets Group for Prudential Retirement. "And it's tough competition. We're looking at competing against paying the bills, buying a new car, the apartment with a balcony. There's also a significant amount of participant inertia to overcome."

To address the issues, King said the retirement industry must continue to embrace the use of automatic features in defined contribution plans, including automatic enrollment of workers, automatic escalation of participant contributions, and automatic rebalancing of their portfolios so as to maintain an appropriate asset allocation mix over time.

"We need to address the needs of our Millennials, who actually outnumber Baby Boomers and think very differently," King said. Millennials, the generation born between roughly 1985 and 2000, are hyper-connected, fully-integrated, and socially-networked. A recent survey sponsored by Merrill Lynch concluded that Millennials take nothing at face value and want to remain in the driver's seat when it comes to investments, among other things. "So hopefully SVIA's recent forays into social media, specifically LinkedIn and Twitter, will help to educate this important cohort about the benefits of stable value," King said. "The industry must continue to educate and inform fiduciaries and policy makers, too, to ensure that they understand the asset class."

The industry also needs to get involved with target date funds, King said. "Stable value can be an allocation in customized target-date funds," he argued. "It is important for the asset class to grow with those funds. We have the ability to compete in that space." According to Morningstar, target date funds grew from about $157 billion in 2008 to $508 billion in the first quarter of 2013, and retirement industry consensus suggests this is a trend that will likely continue.

King encouraged stable value providers to continue working to increase penetration in defined contribution plans that don't currently offer stable value, as well as in 529 tuition assistance plans. Current market conditions should help in that effort, he added, noting that stable value funds have a significant return advantage over money market funds, which have been yielding nearly zero percent for about four years, and have a regulatory horizon that can be described as "stormy at best."

"We can also try to crack the code for the Individual Retirement Account (IRA) market," he said. "If we can do that, we can more than double our opportunity set." Under the current regulatory regime, stable value funds cannot be offered to IRA investors.

In summary, King said stable value as an asset class is in great shape. "We have a significant share of the marketplace," he said. "We have new wrap capacity in the market. We have new entrants providing contracts that meet the new conditions of the marketplace. We have several existing providers continuing to grow their business. We also have some wrap providers who are holding pat and not exiting the market. We also have demographics in our favor; Boomers are retiring at a rate of 10,000 a day, and data from the Investment Company Institute and the Employee Benefit Research Institute show the 60-year and up age cohort saving up to 30 percent of their assets in stable value. So we have some excellent tailwinds.

"We've also gone from the defensive to the offensive in the press," he concluded. "Through the financial crisis, and until very recently, we were reacting to negative press in the marketplace. Now, we are posting positive articles on our website from publications like *Barron's, The Wall Street Journal, Pensions & Investments,* and *Forbes*. The asset class is in a good place."