SVIA STABLE TIMES

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Stable Value Market Posts Sixth Consecutive Year of Growth

By Randy Myers

According to data compiled by the Stable Value Investment Association, the stable value market grew for a sixth consecutive year in 2016, with total assets climbing 5 percent to $821 billion. Stable value now represents approximately 11.7 percent of the $7 trillion held in defined contribution retirement plans.

SVIA Chairman Steve Kolocotronis, Vice President and Associate General Counsel for Fidelity Investments, shared the latest data for stable value assets while joining Association President Gina Mitchell in opening the SVIA's 2017 Spring Seminar in Half Moon Bay, California.

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Wrap Issuers See Healthy Stable Value Market

By Randy Myers

Issuers of stable value wrap contracts view their asset class as being in decidedly good shape, but not without challenges.

"Improvements in the industry since the 2008 financial crisis have been notable," said Karen Edgerton during a panel discussion of industry trends at the 2017 SVIA Spring Seminar. "Portfolios are in really good shape in terms of average credit quality, duration—all the metrics we carefully monitor. Contract terms are much more well-defined, and if we're confronted with issues we know what the next steps are to deal with them. Issuers also are collecting much more data on what's in stable value portfolios, which will be helpful in the next crisis."

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Challenges and Opportunities: The Outlook for Stable Value

By Randy Myers

Few external factors impact stable value funds more than changes in interest rates. With Treasury yields approximately 75 to 100 basis points higher in late April than they were at their 2016 lows, many retirement plan sponsors were wondering what it means for their stable value funds. They were concerned not only about the impact on returns, but also about the impact on market-value-to-book-value ratios of the stable value contracts.

This topic held center stage at the 2017 SVIA Spring Seminar during a panel discussion on challenges and opportunities facing the stable value industry.

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Kolocotronis noted that stable value had accounted for 18 percent of all defined contribution plan assets as recently as 2008. He attributed the downturn in market share largely to the Department of Labor's 2007 decision to grant Qualified Default Investment Alternative (QDIA) status to target-date funds, but not stable value funds. Since then, younger plan participants who don't make their own investment choices have largely been funneled into target-date funds, which, as QDIAs, provide safe-harbor protections to plan sponsors.

He also noted that new money market fund rules from the U.S. Securities & Exchange Commission have prompted some retirement plans to remove money market funds from their investment lineups and replace them with stable value funds, a trend he hopes will gather steam over time.

Additionally, the SVIA hasn't given up on the idea of trying to convince the Department of Labor to recognize stable value as a QDIA, and continues to explore the issue. In the meantime, Kolocotronis said that while stable value may have lost some of its status as an accumulation vehicle, it is increasingly being viewed as an investment appropriate for investors who have begun to draw assets out of their retirement plans. A significant number of older participants in plans managed by his firm have money in stable value when they retire, with the percentage "drastically increasing" among those who've reached the age where they are required to begin taking distributions from their plans.

"As plan sponsors have struggled with the concept of retirement income and how to provide it to plan participants, I think participants have figured out that stable value can be the appropriate retirement income option," Kolocotronis said. "As an industry, it might behoove us to push that as an option for plan sponsors. If you have a stable value fund, you (already) have a retirement income solution that will serve your participants well." SVIA

How Macroeconomic and Political Trends May Impact Stable Value

By Randy Myers

Bonds have long had a reputation as the staid and conservative corner of the investment markets. It was probably never true, except, perhaps, for pensioners "clipping coupons." It's certainly not true today. Speaking at the SVIA's 2017 Spring Seminar, Matthew Kaiser catalogued a list of macroeconomic and political developments that are impacting the bond market. They include an uptick in populist sentiment at the expense of globalization, a shift in the U.S. toward fiscal policy rather than monetary policy as the vehicle for stimulating the economy, the prospect for reflation rather than secular stagnation in developed economies, and a move in the U.S. toward deregulation rather than regulation.

Against this backdrop, Kaiser said, the bond market is likely to see increased volatility over time, which should provide opportunities for active managers—including those who manage stable value portfolios—to squeeze value from their portfolios. Specific areas addressed follow:

The economy. GSAM expects U.S. growth of about 2 percent a year. However, if the Trump administration is successful in implementing many of its policies the economy could do better. While consumer spending hasn't yet responded to improvements in income and wages, inflation is signaling that the economy may be shifting into a higher gear. GSAM now expects the Fed's preferred inflation measure—the core Personal Consumption Expenditures price index—to reach or exceed the Fed's target of 2 percent by year-end 2017. That doesn't necessarily mean the Fed will tighten monetary policy, as the Fed has been hoping for inflation to move higher. GSAM also expects U.S. wages to move higher now that the labor market is close to full employment levels, and start to approach the Fed's stated goal of 3 percent to 4 percent growth. Overall, Kaiser called the economic backdrop "pretty constructive" for the bond market.

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Save the date: SVIA's Fall Forum, October 9-11, 2017 in Washington, DC

How Macroeconomic and Political Trends May Impact Stable Value

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Interest rates. Kaiser doesn't see much room for Treasury yields to sustain significantly higher levels this year as long as yields on non-U.S. sovereign bonds remain extraordinarily low, as is currently the case. While GSAM isn't betting on yields moving one way or another, it is trying to identify the range in which yields will move and trade accordingly, shortening the duration of stable value portfolios as yields in the U.S. fall toward 2 percent and lengthening duration as yields climb to 2.75 percent to 3 percent. GSAM Is anticipating the Fed will raise short-term interest rates two more times in 2017—in June and September—after last doing so in March. After the latest hike, investment markets responded by easing financial conditions, making it easier for the Fed to continue on the path of more increases. Following through on this opportunity should allow the Fed to start shrinking its balance sheet in the fourth quarter.

Headwinds. Among the potential headwinds to an improving U.S. economy, would be the imposition by the federal government of protectionist measures, such as new tariffs on steel or aluminum imports aimed at reducing U.S. trade deficits. Attention should be paid to what's happening with possible reforms in the market for bonds issued by government-sponsored entities, which have come to account for a large amount of the debt backing the U.S. housing market. On a positive note, a number of the president's senior advisors, including Treasury Secretary Steven Mnuchin, understand this market well and are focused on the possible dangers it presents.

Investment considerations for stable value. Kaiser noted that consumer balance sheets are healthier today than corporate balance sheets, arguing for more exposure to the consumer and less exposure to corporate credit. He also said the long end of the U.S. yield curve looked particularly expensive. Assets held in the stable value portfolios GSAM manages, include high-quality, short-term corporate bonds; short-term agency debt; commercial mortgage-backed securities and asset-backed securities, including many backed by consumer debt. GSAM likes floating-rate debt at the moment, as well as collateralized loan obligations—floating-rate, securitized assets backed by bank loans. In the CLO market, GSAM has moved almost exclusively into the most senior-rated bonds.

In summary, GSAM sees global economic growth improving amid a shift to fiscal rather than monetary policy. Although market sentiment may be racing ahead of hard improvements in economic data, GSAM thinks the Trump administration ultimately will be successful in pushing through its pro-growth agenda. The administration's target of 3 percent to 4 percent economic growth is aggressive, but Kaiser added that even 2.5 percent to 3 percent growth would have an enormous impact on federal budget finances. SVIA

Trumped: Elections Have Consequences

By Randy Myers

Speakers:

Colbert I. King, Deputy Editorial Page Editor (retired), The Washington Post

Gwendolyn King, President, Podium Prose

Washington Post Pulitzer Prize-winning columnist Colbert King has been observing U.S. presidents since he was young. As a Boy Scout, he marched past the reviewing stand at Dwight Eisenhower's first inaugural parade in 1953.

King is a Democrat who is married to Republican Gwendolyn King, a businesswoman who served as Commissioner of the Social Security Administration for three years under President George H.W. Bush.

The Kings sometimes disagree about politics.

Not surprisingly, the Kings hold differing views of the newest occupant in the White House, and the likely consequences for the country. They shared some of those views during a joint speaking appearance at the 2017 SVIA Spring Seminar.

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Trumped: Elections Have Consequences

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"Washington," Colbert King told his audience, "has never seen the likes of Donald Trump." He said Trump "tells his own story, and defines what he regards as success, whether or not it's true." He said the president "is running the risk of coming off, despite his pronouncements, as a wishy-washy leader who will change or bend his position."

"Above all else," King said, "he wants to avoid conflict and crisis; he is unwilling to take the heat when something goes wrong."

How others see Trump, likely depends on where they are sitting. As a journalist observing a president with low approval ratings, a highly partisan and polarized Congress, and roiling hotspots overseas, King said he "has a difficult time shaking off a keen sense of peril."

Gwendolyn King said that "even Republicans are a little bit nervous today," conceding that Washington is an "unsettled" place right now with "some real strain between the executive branch of government and the legislative branch." But while acknowledging the numerous distractions that have plagued the early days of the Trump administration—the quick departure of Michael Flynn as Trump's national security advisor, for example—she also cautioned that circumstances aren't as dire as her husband suggests.

Gwendolyn King said Trump's decisions to bring a number of experienced people into his administration, such as Lt. Gen. H.R. McMaster to replace Flynn, have been reassuring. And while Trump disparaged many members of Congress during his presidential campaign, she said, the good news for him is that many legislators have short memories.

Meanwhile, she noted, the President has a supporter heading the tax-writing House Ways and Means Committee, which she suggested bodes well for Trump's aim to rewrite the tax code. In the Senate, she added, Republican Senator Orrin Hatch of Utah "is a seasoned, reasonable politician who will give any tax reform proposal thoughtful consideration before it emerges from his Committee."

Colbert King said he is not optimistic that Trump will be able to make good on some of his signature campaign promises, including tax reform and a big infrastructure spending program. Gwendolyn King wasn't quite willing to predict that he will, although she expressed some optimism on tax reform. But she said she hopes the country can find a way to unite on a large-scale issue other than war. "There are a lot of things we should be doing," she said, "and the longer we put them off, the more difficult they are going to be." SVIA

Outlook for Employee Benefits Uncertain as New Administration Settles In

By Randy Myers

Speakers:

Carol V. Calhoun, Counsel, Venable, LLP

Gene Paranczak, ERISA Attorney and Senior Pension Consultant, Strategic Retirement Consulting, The Vanguard Group

Michael Richman, Partner, Morgan, Lewis & Bockius LLP

Moderator: Susan Graef, Principal, The Vanguard Group

During the first few months of this year, debate over the future of the Affordable Care Act dominated discussions about how employee benefits would be impacted under the Trump administration. But the outlook for employee benefits is actually uncertain on a broad front, industry experts said during a panel discussion at the 2017 SVIA Spring Seminar. They zeroed in on five key issues:

<u>The Department of Labor's new fiduciary rule.</u> Following Michael Richman's update, Carol Calhoun said the administration might find it hard to back out of the new rule, in part because it had been a bipartisan initiative for many years. In the meantime, she and other panelists said, there are a number of best practices plan sponsors can follow to manage their risk as fiduciaries, regardless of what happens with the new fiduciary rule. Among their suggestions:

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- Make clear exactly who sits on the plan committee by designating them by position, such as chief financial officer or human resources director, rather than by name.
- Make sure committee members are qualified for the role, perhaps by providing them with appropriate training.
- Engage in ongoing monitoring of plan advisors and vendors, and also of the committee itself, perhaps by the company's board of directors.
- Make sure plan advisors present ample evidence for their recommendations.
- Document factors considered in making plan decisions. Courts are unlikely to second-guess such decisions even if their results prove unfavorable.
- Adhere to the plan's investment policy statement, if one exists.
- Remember that committee members have final responsibility for their plan and its investment decisions, which includes ongoing monitoring of investment decisions. As part of that effort, said Gene Paranczak, committees should know whether their plan has low-cost investment options, and, if not, why it doesn't. "Don't rest on your laurels," he said. "You should always be asking service providers if there are lower-cost options available. The bigger the client you are, the more leverage you should have in the marketplace."

<u>Health savings accounts (HSAs).</u> HSAs are tax-advantaged savings vehicles available to individuals covered by high-deductible health insurance plans. President Trump and his Republican colleagues have indicated they would like to see HSAs get greater use. To that end, House Speaker Paul Ryan has endorsed increasing the contribution limits for health savings accounts to the maximum out-of-pocket limits for high-deductible health plans. This year, those maximums are $6,550 for individuals and $13,100 for families. Raising contribution levels for HSAs, noted Carol Calhoun, would further encourage their use as retirement savings vehicles.

<u>Socially responsible investments.</u> In 2008, the DOL issued guidance that tended to discourage plan fiduciaries from considering Economically Targeted Investments when making investment decisions. In 2015, the DOL published an interpretive bulletin that clarified that plans could consider an investment's benefits other than its direct economic return as long as the investment was "economically equivalent, with respect to return and risk" to investments without those collateral benefits. "This has been a very partisan issue," Calhoun said. "At this point, having a Republican administration, are we going to go back to the theory that retirement plans can't target investments based on anything other than economics? We would expect that sooner or later this will come up."

<u>State-sponsored retirement accounts.</u> Many states have been working to create state-administered retirement plans for private-sector employees who don't have access to a plan where they work. In some cases, the plans would function much like individual retirement accounts, with employers facilitating them through automatic enrollment of their employees. In other instances, they could be set up as multiple employer plans subject to ERISA. Last August, the Department of Labor issued a final rule aimed at allowing states to launch plans using the IRA model without having their plans subject to ERISA, which typically preempts state law. "We're looking at more hostility to that in the federal government. It's not clear how far states can go under existing law, but it does not look like there's going to be any expansion of existing law." "The momentum seems to be gone, at least on the IRA side," added Michael Richman, partner with the law firm of Morgan, Lewis & Bockius LLP.

Update: In May, the rule relating to savings arrangements established by states was nullified.

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Legal protections for LGBT employees. Calhoun said there was speculation with Trump's ascension to the White House that he might rescind previous executive orders providing protections for LGBT employees. "Trump has in fact reiterated that there will be such protections," Calhoun said. On the other hand, she noted, Trump also eliminated a previous executive order requiring contractors to prove they had complied with the first order. "The question," she added, "becomes to what extent the (Trump) administration is going to back off from this—and whether there have been enough court cases so that lawsuits are likely to be successful."

Stable Value Litigation Landscape Remains Uncertain

By Randy Myers

The plaintiffs' bar has filed a number of lawsuits over the past few years aimed at the stable value industry. How the industry fares in these cases will go a long way toward determining whether additional lawsuits are likely to follow, according to Mark Blocker, a partner at Sidley Austin LLP.

Speaking at the 2017 SVIA Spring Seminar, Blocker cited three core reasons for the current crop of stable value lawsuits. First, he said, there's been an increase in retirement plan product litigation as a whole—including lawsuits centered on mutual fund expenses and company stock—and stable value hasn't been immune to that trend. Second, the stable value industry now accounts for more than $800 billion in assets, representing an eye-popping opportunity to the plaintiffs' bar. Finally, a 2014 case involving the Lockheed Martin retirement savings plan, which included a claim that the plan's stable value fund was actually a money market fund, settled for $62 million, of which $37 million was related to the stable value claim. This settlement may serve as encouragement for similar suits from plaintiffs' attorneys.

The current crop of lawsuits targets three types of stable value products, Blocker said, including pooled stable value funds, single-company stable value funds, and general account products. The same law firm has filed the three pooled-fund and two single-plan lawsuits, he added, while three different firms are involved in the general account cases.

Pooled funds. Three of the current lawsuits target pooled funds, Blocker said, with two claiming the fund didn't take enough risk and therefore underperformed the average stable value fund. The third suit makes exactly the opposite claim: that the fund took too much risk. All three cases are in discovery, and Blocker said he anticipates decisions in some or all within the next year. Blocker said there have been no settlements in these cases and he doesn't expect any in the foreseeable future.

Single-company funds. Lawsuits targeting single-company stable value funds typically claim the funds were mismanaged, Blocker said, with the fund manager investing too much in cash or short-term instruments. This was the gist of the Lockheed Martin claim, which, as noted, has settled. A second case recently was dismissed, Blocker said, "and the ruling could not have been better for the stable value fund operator and the industry in general." The judge ruled that it is the investment process, not investment results, that matter in such claims. She also said the fact that a stable value fund's returns differ from an industry average means nothing, and that it's not enough for plaintiffs to use hindsight to claim a fund could have performed better.

General account products. Six lawsuits centered on general account products are moving through the court system right now, Blocker said, and another one has already been dismissed.

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The pending cases typically charge that the insurance company managing the stable value product, while not acting as a fiduciary, effectively was a fiduciary and as such should not be able to retain any spread earned on investments in the company's general account. "Unfortunately, most of these cases have been allowed to proceed," Blocker said. "The courts have said they need more evidence on the fiduciary status of the defendants, so they haven't dismissed them at the earliest opportunity as they did with some of the pooled stable value fund cases."

The general account lawsuit that was dismissed, Blocker said, involved a plaintiff suing over both spread and non-spread products; since the plaintiff only operated a non-spread product, the court prevailed in putting a stop to the suit.

Money market versus stable value funds. Blocker noted that there has been a fourth wave of lawsuits that tangentially impact the stable value industry. These involve claims that retirement plans offered money market funds as investment options when they should have offered stable value funds, which historically have performed better.

The plaintiffs in these cases have argued that prudent fiduciaries would always offer a stable value fund rather than a money market fund because stable value funds have done better over time, generally providing higher returns with minimal additional risk. There are four such cases pending, as well as one proposed settlement involving a plan run by American Airlines. Blocker said courts generally have not been receptive to these claims, ruling in a dismissed case against a Chevron plan that the plan had gone through a thoughtful process in deciding between a money market fund and a stable value fund and that this was sufficient to counter claims of fiduciary imprudence. This was similar to an earlier finding in Tibble v. Edison International.

One similar suit that is following a different narrative, Blocker reported, is the case of Ortiz v. American Airlines, in which the airline offered plan participants an investment option known as the American Airlines Credit Union Demand Deposit Fund—essentially, Blocker said, a money market fund. Early in the case, the parties agreed to settle for approximately $8 million, but the court that had to approve the settlement rejected it, saying the $8 million figure didn't look to be enough to settle the claim. "What ultimately happens in that case, I can't predict," Blocker said. SVIA

How Retirement Plan Re-Enrollments Impact Stable Value Funds

By Randy Myers

Speakers:

Greg Anselmi, Vice President, Client Management, Transamerica Stable Value Solutions, Inc.

Douglas Barry, Executive Vice President and Senior Relationship Manager, Stable Value Strategies, Standish Mellon

LeAnn Bickel, Head, Stable Value Contract Administration, Invesco Advisers, Inc.

Moderator: Bradie Barr, President, Transamerica Stable Value Solutions, Inc.

Re-enrolling participants in defined contribution retirement savings plans isn't particularly advantageous for stable value funds. However, stable value industry leaders at the 2017 SVIA Spring Seminar made it clear the industry's top priority is to help participants achieve their retirement goals, and said it is important for stable value providers to accommodate plans that choose to re-enroll participants.

Only a very small minority of retirement plans undertake re-enrollments in any given year. Through re-enrollment, sponsors can help participants redirect their retirement savings into age-appropriate investment strategies, often using target-date funds or some other Qualified Default Investment Alternative (QDIA).

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How Retirement Plan Re-Enrollments Impact Stable Value Funds

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Drawing on data made available by The Vanguard Group, Bradie Barr, President of Transamerica Stable Value Solutions, walked her audience through what happened to one stable value fund when a plan administered by Vanguard went through a re-enrollment. Forty-two percent of the plan's participants were invested in its stable value option on September 30, 2014, prior to re-enrollment. At that time, stable value accounted for 15 percent of total plan assets. On June 30, 2016, six months after the re-enrollment was completed, only 2 percent of participants were invested in stable value, and stable value accounted for just 2 percent of total plan assets. One year following re-enrollment, stable value use had rebounded a bit. At that point, 4 percent of plan participants were invested in the stable value option, which now accounted for 3 percent of plan assets.

Vanguard Reenrollment

Vanguard, 2016. Reshaping participant outcomes through reenrollment, Vanguard Center for Retirement Research, Malvern, PA

	Before reenrollment 9/30/2014		6 months after reenrollment 6/30/2015		1 year after reenrollment 6/30/2016	
A. All participants (n=17,028)						
Opt-out rates						
100% default fund				84%		80%
Default fund and stable value				0%		0%
Subtotal				84%		80%
Partial opt-out				10%		12%
Full opt-out				6%		8%
Total				100%		100%
Switched target-date fund				3%		N/A*
Portfolio allocation	Participants (%)	Percentage of plan assets	Participants (%)	Percentage of plan assets	Participants (%)	Percentage of plan assets
Target-date	25%	5%	94%	74%	92%	81%
U.S. equity	54%	41%	13%	16%	15%	7%
International equity	39%	9%	8%	3%	8%	2%
Bond	53%	10%	8%	2%	7%	3%
Stable value	42%	15%	2%	2%	4%	3%
Traditional balanced	57%	20%	5%	3%	5%	4%

LeAnn Bickel, head of Stable Value Contract Administration for stable value manager Invesco Advisors Inc., described one of four cases they have experienced since 2014. Bickel said the client had begun talking about the idea a year or so after the 2008 financial crisis, when the market value of its stable value fund was below book value. Because the fund's contract terms would have made it difficult to cover withdrawals at book value at that time, the plan postponed the move until 2014. Bickel said that prior to the re-enrollment, about 29 percent of the assets in that plan were in its stable value fund; after re-enrollment that figure dropped to 7 percent. Now, three years later, it is up to about 10.5 percent. Still, Bickel said, "This is all about helping participants achieve their retirement goals, and it is in our best interest as a stable value manager and as an industry to help plan sponsors, and ultimately plan participants, achieve their objectives."

Greg Anselmi, Vice President, Client Management for Transamerica—the sole stable value wrap issuer on the panel—said his firm had been involved with nine re-enrollments since 2012, although only five had a direct impact on Transamerica's wrap contracts, and some excluded stable value from the process. Re-enrollment activity has since died down, he said, noting that "over the last two years we might have had one smaller re-enrollment". Where it has been involved in re-enrollments, Anselmi said, the managers of the stable value funds all took the same approach to managing the transition, increasing their fund's cash buffer to fund re-enrollment-related withdrawals. "We saw as much as 75 percent taken out of our contracts," he said, "but overall it was a very positive experience with the managers. They included us early in the process, and we had a lot of time to work together to figure out a solution."

For any stable value managers who may have to work through re-enrollments in the future, the panel offered several pieces of advice. First, they said, stable value managers should position their portfolios in advance of re-enrollment to minimize the long-term impact on their fund's crediting rate. They should assist plan sponsors and record-keepers with participant communication materials, and work with record-keepers during the investment election period to ensure cash levels in the fund are sufficient, but not higher than necessary. They also should work with plan committees to model and explain the stable value issues associated with re-enrollment. Finally, the panel said, stable value managers should actively engage their wrap issuers in the process to facilitate a smooth transition. SVIA

Challenges and Opportunities: The Outlook for Stable Value

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Speakers:	
	Eric Baumhoff, Chief Investment Officer, Standish Mellon
	James Corning, Director, Stable Value Solutions, TIAA-CREF
	Shane Johnston, Senior Portfolio Manager, Morley Financial Services
	Robert Madore, Vice President, T.Rowe Price Associates, Inc.

Moderator: Karl Tourville, Founding Managing Partner and President, Executive Operating Committee Chairman, Galliard Capital Management

Eric Baumhoff said his firm tries to make sure that clients hear three important things:

- The range of market-to-book ratios plan sponsors have become accustomed to since 2009—about 102 percent to 105 percent—is not the range stable value portfolios traditionally have traded in over longer periods of time.
- The causes behind the current rise in interest rates are more favorable for stable value than they have sometimes been in the past.
- Higher rates ultimately will benefit stable value investors.

Baumhoff said stable value market-to-book ratios historically have ranged between 97 percent and 103 percent. To demonstrate how rising rates are likely to impact these ratios, he said, his firm modelled a synthetic stable value portfolio and tracked the market-to-book ratio for that portfolio over a 25-year period that included the 2004-2006 period when interest rates rose just over 400 basis points. By the end of the cycle, he said, the ratio had fallen to about 97.5 percent from 102 percent.

Baumhoff also noted that interest rates today are being driven by rising Treasury yields rather than, as was the case in 2008, widening credit spreads. The latter scenario, he said, "is a much different and scarier place than the current environment, in which we're able to reinvest cash flows at higher yields, which can be beneficial".

Finally, Baumhoff said, "We want rates to go up, at a measured pace, slowly over time," he said. "We want rates to normalize. The corollary of that is that market-to-book ratios will come down; you can't get away from that. But this is no time to panic. We've seen scenarios like this over the last 25 years."

Shane Johnston added that stable value crediting rates—the rates paid out to stable value investors—will lag the uptick in interest rates due to the way crediting rates are calculated. But he stressed that this is the way the product is designed to work; crediting rate formulas smooth out the market value returns of the portfolios, minimizing volatility for investors. Still, he said, over time rising rates push up crediting rates, and that benefits investors. Stable value managers who wish to minimize this lag effect, Johnston noted, can shorten the duration of their portfolios.

Johnston encouraged stable value managers to keep the lines of communication open with plan sponsors and consultants so they understand how a rising rate environment might impact their stable value funds. Historically, he added, stable value funds have enjoyed positive cash flows during such periods.

For Robert Madore, Vice President with investment manager T. Rowe Price Associates, one of the most important questions surrounding a rising rate environment is whether it will impact the amount of wrap capacity available to stable value managers. "We're blessed today to have plenty of capacity, most of which came online when market values were above book values," he said. "How much of that is going to be available to us (if rates keep rising)?"

James Corning said his team spends much of its time right now focused on how to expand the

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use of stable value funds at a time when target-date funds are capturing the lion's share of new money flowing into retirement savings plans. TIAA isn't a stable value manager, he pointed out, but it does offer stable value products in the defined contribution savings plans it manages. He said one way it looks to promote the use of stable value is by encouraging its inclusion in custom target-date funds. He said his firm also sees an opportunity for the industry to grow by positioning stable value as a means of generating income for plan participants once they've retired.

"The market, at least as we view it, has never been stronger. Market-to-book ratios are very good, and we've got a strong issuer base that has broadened considerably since 2008."

Panel moderator Karl Tourville reminded seminar participants that the stable value industry has adapted and thrived through many changing environments, and he suggested that now may be its golden age. "The market, at least as we view it, has never been stronger," he said. "Market-to-book ratios are very good, and we've got a strong issuer base that has broadened considerably since 2008."

Tourville said stable value fees are attractive from the manager and wrap provider perspective, and "probably too attractive in some cases, which we'll need to address going forward as plan sponsors increasingly focus on total expenses, not just what managers are charging."

Tourville stressed that he's not in favor of cutting management fees, but said it's simply unrealistic to think the stable value industry can be immune to the fee pressures being felt across the retirement plan landscape.

"I agree," said Madore. "When it comes down to looking at adding stable value to a managed account, for example, what's your comparison? You look at short-term bond funds. To the extent total fees for stable value are close to or more than the short-duration bond fund, they're going to pick the bond fund. So, I think we definitely have to worry about fees."

Johnston countered that it's important for stable value providers to make it clear that stable value funds offer benefits that short-duration bond funds cannot.

Several of the panelists agreed that one of their biggest concerns right now is the amount of money flowing into and out of stable value funds. Money is flowing out in some cases as retiring baby boomers start consuming retirement plan assets rather than adding to them. Meanwhile, the vast majority of new retirement-plan contributions are flowing into target-date funds, which necessarily limits what's available for stable value.

Most panelists said they'd seen some money flow into stable value funds as a result of new rules from the Securities and Exchange Commission that have been widely viewed as unfavorable to money market funds. As a consequence, they noted, some plan sponsors have replaced money market funds with stable value alternatives. Still, they said, the amount of money involved wasn't as great as many had been expecting.

In looking at future opportunities for the stable value industry, the panelists expressed hope that stable value would become viewed more broadly as a source of retirement income, as a component of asset-allocation products such as target-date funds, and as a more common investment option in other markets, including health savings accounts and multiple-employer retirement plans. SVIA

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Wrap Issuers See Healthy Stable Value Market

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Edgerton also noted that management teams at stable value wrap issuers are much more informed about the asset class than they were a decade ago, which has helped in the effort to bring new entrants into the market and boost wrap capacity. Some issuers said they have even become comfortable negotiating some modest loosening of investment guidelines with stable value managers, while still insisting that those guidelines don't allow managers to invest outside the issuer's tolerance for risk.

Looking to the future, Kostas Sophias said he expects market-value-to-book-value ratios for stable value portfolios to fall below par, on average, in the years ahead. But he and other panelists indicated they didn't see that as a problem.

The biggest challenges facing the industry, the wrap issuers said, include fee pressures, the declining share of new money flowing into stable value funds, and the need to simplify stable value to make it easier for retirement plan sponsors to understand it and add it to their investment lineups. A core concern in the latter area is the equity wash rules that most funds impose on transactions into and out of competing funds.

Lacey Lockward said her firm is reevaluating how it classifies and handles competing funds. But, she cautioned, any change to the current approach would need to be backed by supporting data and analysis that is persuasive not only to stable value business leaders but also to the senior leadership of the firm. Given that many stable value funds depend on wrap contracts from multiple issuers, she added, any new approach would likely need to be embraced industrywide to be successful.

Claudia Farias said her group would be agreeable to rethinking how the industry defines and handles competing funds, but also would need data to support any changes.

Brian Murphy, in agreement with many of the issuers, offered that standardization of stable value products could offer many benefits for the industry and its constituents, including making stable value easier for plan sponsors to understand and use. But several issuers questioned whether it's truly the best path forward. Mark Pherson noted that the industry's ability to customize products to the unique circumstances of plan sponsor clients can be a virtue. "I think standardization takes away one of the attractive things about our asset class—its unique problem-solving ability. I don't know if it would help us grow the asset class," he said.

Still, growth of the asset class, all of the issuers agreed, will be important moving forward. To ensure that it happens, the issuers said the industry needs to explore a wide range of opportunities. These include incorporating stable value in target-date funds, positioning stable value as an income generator for plan participants who are in retirement, and introducing or expanding stable value into new or underpenetrated markets, including retirement plan markets outside the U.S., college-savings 529 plans and health savings accounts.

Murphy suggested it also would behoove the industry to continue working to have stable value designated as a Qualified Default Investment Alternative by the Department of Labor, which presumably would make it more attractive to plan sponsors because it would then provide fiduciary safe harbor protections for sponsors. In opening the 2017 Spring Seminar, SVIA Chairman Steve Kolocotronis, vice president and associate general counsel for Fidelity Investments, said the SVIA is continuing to explore that issue. SVIA

Speakers:

Karen Edgerton, Vice President, Stable Value Marketing, RGA

Claudia Farias, Vice President, Stable Value Wrap Group, State Street

Lacey Lockward, Vice President, Stable Value, Prudential Financial

Brian Murphy, Vice President, Corporate Development, National Life Group

Mark Pherson, Vice President, Transamerica Stable Value Solutions, Inc.

Kostas Sophias, Executive Director, JP Morgan Chase Bank Fixed Income Structuring and Sales

Moderator: Nick Gage, Senior Director, Stable Value Account Strategy, Galliard Capital Management, Inc.