Why would a retirement plan offer a money market fund as its capital preservation option? While there is not one universal answer to this question, money market funds are familiar to most and easy to understand. They invest in short-term securities, provide access to cash value, and are a popular choice for many retirement plans.

However, familiarity and popularity should not be the key drivers for selecting a capital preservation option for a sponsored retirement plan. Plan fiduciaries have an obligation to explore all capital preservation options from multiple providers for their plans. Additionally, a due diligence process should be a critical task within the ongoing monitoring of the specific plan.

There certainly could be valid reasons for a plan sponsor to select a money market fund instead of a stable value fund within the plan lineup. However, it is important to note that failure to implement prudent investment oversight processes for the capital preservation asset class may have expensive consequences. Over the past several years, there have been more than a few instances when plan fiduciaries were called into question regarding the use of a prudent due diligence process for the selection and monitoring of their retirement plans’ capital preservation options.

Every plan is unique in its demographics and objectives, and therefore requires a thorough review of its capital preservation options not only during the selection process, but as an ongoing part of the monitoring process after implementation. Understanding how both money market funds and stable value funds perform under various economic circumstances is just one of the initial tasks in a prudent review and selection process.

Money Market Funds – A Brief History

After the 2008 financial crisis, money market fund managers generally responded to a low interest rate environment in several ways:

- Closing/liquidating funds
- Changing investment strategies
- Converting to short-term government securities funds
- Waiving fees to prevent negative net returns

Despite the money market reforms that became effective in 2016,1 it is not impossible for this asset class to potentially “break the buck” once again.2 An alternate scenario is a 0% interest rate environment that produces negative returns if fund fees are not waived.

Fast forward to 2020, where short-term interest rates have again been driven down to nearly 0%. While these rates have started to slowly increase in early 2021, the long-term persistence of low interest rates, “low for long,” is expected be the continued trend for the foreseeable future. According to Crane Data, as of March 2021, money market funds have been experiencing not only record low return rates, but a number of funds have either announced or completed liquidations.3 Is it a dying asset class? Absolutely not. For example, money market funds may be a better solution for a plan sponsor that expects volatility in plan cash flows due to a corporate action or employer event. In this situation, a stable value fund would likely not be the best choice. The bottom line is that a prudent due diligence process should always take a multitude of factors into consideration.
Historical Performance

Reviewing historical performance is just one of the many aspects that make up a prudent due diligence process. The chart below shows the annualized returns over the past 20 years for the Fed Funds Target Rate (Fed Funds Target), Lipper Money Market Index (Lipper MM), New York Life’s Anchor Account (Anchor Account) and the Hypothetical Stable Value Account. The Hypothetical Stable Value Account is product-agnostic and sourced from the Stable Value Investment Association (SVIA).4

Gross Returns as of December 31, 2020

The Hypothetical Stable Value Account performance is provided for illustrative purposes and the results are based on assumptions, and do not reflect the impact that economic and market factors may have had on the investment decisions of an investment manager. An investment cannot be made directly in an index. See page 4 for additional disclosures.

During the 20-year period displayed, the Fed Funds Target Rate has experienced several periods of peaks, valleys and flatlines. During periods of high interest rates, money market funds provided competitive returns, but in low interest environments, their returns dropped to between near and below 0%. Most notably, the Lipper MM has moved in virtual lockstep with the Fed Funds Target for the entire 20-year period. This chart illustrates how money market funds are extremely sensitive to the movements of interest rates.

The chart also illustrates that during the same 20-year period, with the exception of the 18-month period between March 31, 2006 and September 30, 2007, stable value funds have provided more consistent, and higher returns than money market funds, with a lag to interest rate movements.
Why are stable value crediting rates not as acutely affected by the movements and fluctuations of interest rates as money market funds? Using book value accounting, they are structured to allow for the amortization of market value fluctuations across the duration of the underlying portfolio. This smooths out the marked-to-market impact. Additionally, this structure typically includes a "wrap" guarantee that protects the participants' balances in the stable value fund if there is a fluctuation or a decrease in the assets' value.5

An additional illustration compares growth. In this scenario, a $10 million single, lump sum contribution was simultaneously allocated to both the Lipper Money Market Index and the Anchor Account on January 1, 2010. The tracked performance over 10 years shows that the growth of the contribution is consistently higher for the Anchor Account over the Lipper Money Market Index.

**Growth of $10 Million – as of December 31, 2020**

<table>
<thead>
<tr>
<th>Year</th>
<th>Lipper MM Index</th>
<th>Anchor Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$10.7M</td>
<td>$10.0M</td>
</tr>
<tr>
<td>2011</td>
<td>$11.5M</td>
<td>$10.7M</td>
</tr>
<tr>
<td>2012</td>
<td>$12.3M</td>
<td>$11.5M</td>
</tr>
<tr>
<td>2013</td>
<td>$13.1M</td>
<td>$12.3M</td>
</tr>
<tr>
<td>2014</td>
<td>$13.9M</td>
<td>$13.1M</td>
</tr>
<tr>
<td>2015</td>
<td>$14.7M</td>
<td>$13.9M</td>
</tr>
<tr>
<td>2016</td>
<td>$15.5M</td>
<td>$14.7M</td>
</tr>
<tr>
<td>2017</td>
<td>$16.3M</td>
<td>$15.5M</td>
</tr>
<tr>
<td>2018</td>
<td>$17.1M</td>
<td>$16.3M</td>
</tr>
<tr>
<td>2019</td>
<td>$17.9M</td>
<td>$17.1M</td>
</tr>
<tr>
<td>2020</td>
<td>$18.7M</td>
<td>$17.9M</td>
</tr>
</tbody>
</table>

This chart is for illustrative purposes only and not intended to represent the performance of any specific client account. This does not imply any future performance. All returns are gross of fees. Individual results will vary and may be more or less favorable, depending on factors like withdrawal rates, fees and expenses. Past performance is not a guarantee of future results. Please note that an investor cannot invest directly in an index.

Stable value funds are generally well aligned with the long-term objectives associated with sponsored retirement plans and education savings programs. Historically, over longer periods of time, they have experienced lower volatility. As a result, they are typically better equipped to withstand challenging market cycles relative to money market funds.

In a potential "low for long" interest rate environment, delivering safety and income may certainly be more challenging. While no one can firmly predict how long this period of persistently low interest rates will last, it can be helpful to understand how capital preservation options have performed historically in similar environments. Regardless of the economic climate, capital preservation recommendations should be made only after implementing a prudent due diligence process to protect the best interests of a sponsored plan and its participants.

New York Life Stable Value Investments can provide professional guidance from the initial due diligence review and selection stage, right through to the final implementation. New York Life’s team of stable value professionals can guide financial advisors through a detailed review, along with the consideration of other nuances that may require evaluation, but are often ignored or misunderstood during the selection, documentation and monitoring process.
2. Definition: when the net asset value of a money market fund falls below $1.00.
4. SVIA Stable Value at a Glance, December 31, 2020. The “Hypothetical Stable Value Account” is intended to be a simplified illustration of the impact of spreading market value performance gains and losses over time. For the purpose of these simplified illustrations, the Hypothetical Stable Value Account incorporates use of the Bond Index returns as the underlying investment attached to simulated stable value wrap contracts. The incorporation of this “wrapped” Bond Index with its use of simplified performance spreading techniques should not be construed as representing any actual or intended Stable Value Account or Stable Value Fund. Moreover, this Hypothetical Stable Value Account is not intended to constitute nor represent a benchmark. This Hypothetical Stable Value Account data and related graphics is intended solely to simulate the principles of performance amortization techniques and relative levels of yield curves. This material is being used with the express permission of the Stable Value Investment Association.
5. Guarantees are based on the claims-paying ability of the issuer. There is also the possibility that a wrap contract may drop a defaulted security from the guarantee coverage.

Money market funds are not guaranteed by the FDIC or any other government agency. They generally seek to preserve the value of an investment at $1.00 per share, but it is possible to lose money by investing in a money market fund.

It is not possible to directly invest in an index.

The Federal Open Market Committee (FOMC) sets a target federal funds rate eight times a year, based on prevailing economic conditions.

All returns shown are gross of fees and are for illustrative purposes not intended to represent the performance of any specific account. Past performance is not a guarantee of future results.

This material is for informational purposes only, does not constitute investment advice and should not be used as a basis for any investment decision. The views and opinions expressed herein are as of the date of this report. The underlying assumptions and our views are subject to change.

Stable Value Investments is a division of New York Life Insurance Company, New York, New York.