Stable Value: Stay the Course

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Few would argue that the year 2022 brought monumental challenges in terms of investing in both the stock and bond markets, given the historic rise in inflation and interest rates. From a retirement plan investing perspective, it was certainly a time to make sure your financial plan was in place and your course charted. Throughout that year, we often heard from market experts, stating there was no “safe harbor” from the market volatility. In fact, according to Morningstar, its U.S. Market Index lost 19.4% and its U.S. Core Bond Index lost 12.9%.[1]

However, the Stable Value asset class, available only in tax-qualified plans (including retirement plans), performed well, posted positive gains for all of 2022, and provided a valuable lesson. If retirement plan participants seeking a capital preservation option in 2022 had access to Stable Value, they may have had the opportunity to stay on course, protect their hard-earned retirement plan investments, and continue to earn income. To illustrate, Joe is a plan participant who recently retired. He no longer contributes to his retirement plan. Therefore, Joe’s primary investment goals are to preserve capital and conservatively grow his retirement assets. If Joe had decided to allocate a portion of his retirement assets into his plan’s Stable Value option on March 31, 2022, not only would that portion of his investment have been protected from loss; it could have grown by over 2% by March 31, 2023.[2]

What is Stable Value and how does it stabilize returns?

Stable Value is a principal preservation investment option. For Stable Value products that permit the commingling of assets of multiple retirement plans, they enjoy the benefits of enhanced purchasing power and cost reduction. Created over 40 years ago, Stable Value is said to yield “intermediate bond-like” returns[2] and is often referred to as a guaranteed or fixed rate product. However, Stable Value differs from traditional bond funds in a number of ways. First, Stable Value products are not registered (as opposed to Mutual Funds) and they are not guaranteed by the FDIC or the Federal Government; rather, the issuing financial institution provides Stable Value book value guarantees under a contract. Second, unlike traditional bond funds—where market values generally decrease when interest rates increase—Stable Value products are protected by wrap contracts that seek to smooth returns, use book value accounting, and accrue interest using various periodic crediting rate reset mechanisms. Effectively, Stable Value preserves and protects retirement plan participant balances in a way that is, in some respects, similar to a Money Market fund or cash investment. However, in addition, Stable Value offers a relatively steady and stable stream of income over time.

How did Money Market funds perform as a capital preservation option for retirement plan accounts in 2022?

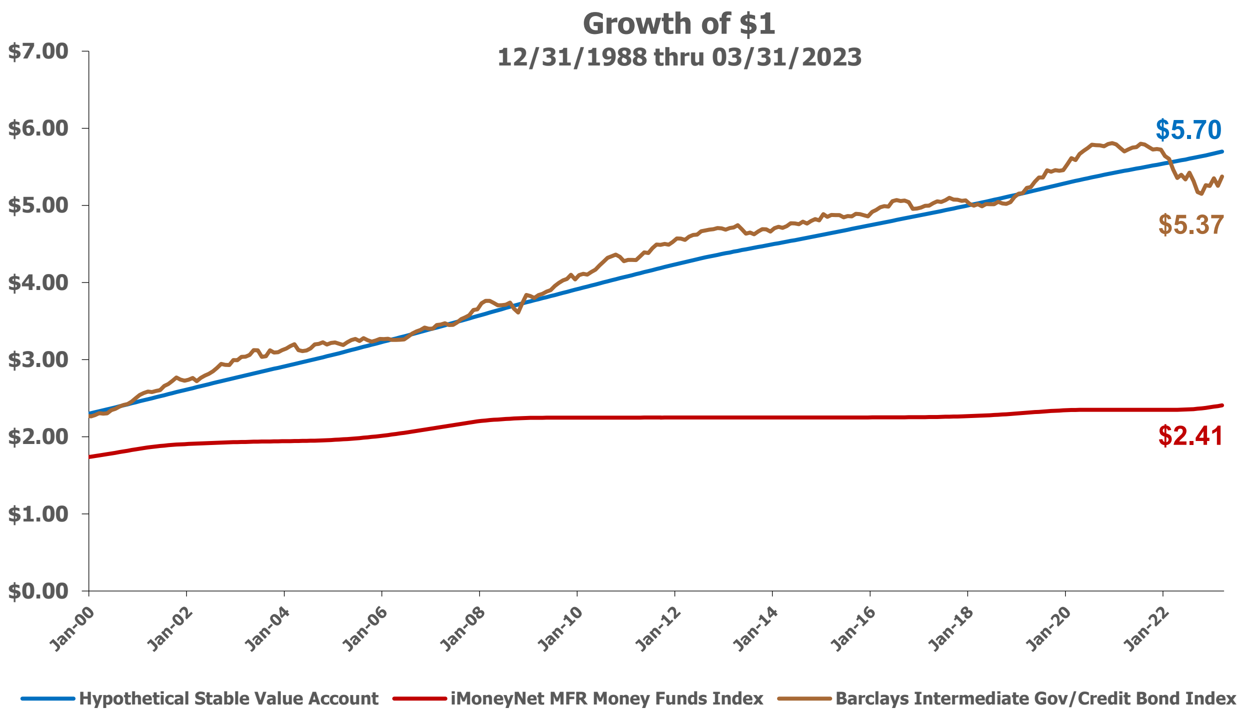
The year 2022 was also a good performance year for Money Markets. Money Market funds achieved their primary objective of capital preservation, as well as strong 7-Day Yield Rates, which increased from near zero returns over the previous year to more than 440 bps.[3] It is important to note that much of this performance can be tied to the Federal Reserve’s monetary policy to combat inflation throughout 2022.

Stable Value and Money Market: Different Behaviors

Money Market funds typically invest in assets with shorter durations than Stable Value products. Therefore, when the Fed raises rates, Money Market rates tend to be more sensitive to changes in interest rates, while Stable Value rates generally adjust more slowly. Because of this design, Stable Value has delivered consistent and steady returns for more than four decades through multiple economic cycles. Long-term attractive performance, coupled with insurance and bank-backed guarantees, are important distinctions between the two products.

Dividend Comparison: Stable Value vs. Money Market

To the extent that interest on both Money Market funds and Stable Value products compounds daily and pays dividends monthly (most do), plan participants' overall retirement plan balance return profiles can generally improve while mitigating sequence of return risk. This factor is especially attractive for plan participants nearing or already in retirement. And while the capital preservation characteristic of Money Market funds is similar to Stable Value, the growth of a dollar invested in Stable Value over the same period is comparable to intermediate term bonds.[2]



Source: Stable Value Investment Association, www.stablevalue.org/stable-value-at-a-glance/.
Please see the definitions and disclosures on page 3 for additional details.

Summary

2022 provided a valuable reminder that Stable Value generally has continued to perform consistently through challenging times. In addition, as compared to Money Market funds, over long periods of time, Stable Value has provided safety of principal and yielded a higher return.[2] It is important to note that not all Stable Value products are created equally; there are risk vs. reward tradeoffs. Historically, however, they have allowed plans and plan participants to stay the course.

Best wishes in helping your clients stay the course, investing for a happy and healthy retirement!

1. Source: Just How Bad Was 2022's Stock and Bond Market Performance? Morningstar
2. Source: Stable Value Investment Association, www.stablevalue.org/stable-value-at-a-glance/.
3. Sources: Refinitiv Lipper and New York Life.

Stable Value products are available only in qualified plans and their primary objectives are: 1) capital preservation and 2) a competitive rate of return.
Definitions:
"iMoneyNet MFR Money Funds Index" is a simulation of money market returns. Returns illustrated are gross before any fees and are annualized. Returns illustrated are gross before any fees and are annualized. Returns illustrated are gross before any fees and are annualized. iMoneyNet monthly money market returns are converted from 30 day returns to exact days before being used in monthly returns, as a result, an actual month's iMoneyNet return used in these calculations may vary slightly from posted iMoneyNet index publications for months with more or fewer days than 30.
"Barclays U.S. Intermediate Government/Credit Bond Index" measures the performance of U.S. dollar denominated U.S. treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years.

"Hypothetical Stable Value Account" is a simulation of book value returns in a hypothetical fund holding intermediate bonds and stable value wrap contracts, with crediting interest rates reset monthly using the industry accepted crediting rate formula. The bond returns incorporated into the simulation are monthly market value returns from the Barclays Intermediate Government/Credit Bond Index, with gains/losses reflected in future crediting rates by amortizing market-vs.-book values over intermediate bond index durations. This simulation incorporates no ongoing cash flows into or out of the fund. Returns illustrated are gross before any fees and are annualized.
The performance data shown represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the performance data cited. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

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