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STABLE VALUE PRODUCTS

An Increasingly Important Component of the U.S. Retirement Market

0203402

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Introduction

Stable value products provide retirement plan participants with protections that are generally not available as part of most other investment choices within retirement plans. These products typically combine an investment in fixed income securities with a guarantee that participants will receive their entire principal and accumulated earnings when they redeem their investments; the source of earnings is a crediting rate promised to participants. In contrast, comparable retirement investment options, such as fixed income mutual funds or money market funds, do not provide such guarantees.

Stable value products attracted relatively little attention until the financial crisis in 2008, even though stable value assets exceeded $500 billion at that time.[1] However, during the financial crisis, participants seeking safety directed record flows to stable value products. Retirement plan sponsor and participant interest in stable value products has remained high after the financial crisis, in large part because stable value products offer relatively attractive yields.[2] Regulators and policymakers have also become more focused on stable value products as they seek to strengthen the financial and retirement systems in the U.S.

Given the heightened interest in stable value products, one objective for this white paper is to provide an introduction to these products to assist plan sponsors and financial advisors in making retirement plan design decisions. The second objective for this paper is to discuss the following three reasons why stable value products are likely to play an even more important role in the retirement market in the coming years.

- **Retirement savers need access to a "safe" retirement investment option.** The three key attributes of a "safe" retirement investment option are principal protection, predictable returns, and a reasonable likelihood of delivering returns that outpace inflation.[3] Stable value products effectively fulfill these requirements by relying on the creditworthiness of an insurer or other financial institution to provide principal protection and predictable returns.

  "Safe" retirement investment options help participants protect their retirement assets at critical times, such as right before retiring; investment losses experienced in the years right before retirement are more harmful to participants than investment losses experienced several years before retirement. "Safe" retirement investment options also benefit participants who have a need to provide diversification compared to their riskier investments.

- **The need for "safe" retirement investment options has increased because individuals have become more conservative investors after the financial crisis.** This trend is amplified by the aging of the American workforce, as older workers tend to invest more conservatively than younger workers.

- **Stable value products are carefully designed to ensure that product providers can deliver on their guarantees.** Stable value providers rely on their ability to adjust crediting rates over a period of years to fulfill the guarantees offered to participants. As a result, stable value products are almost exclusively offered via retirement plans, whose participants generally have an intermediate-term or long-term investment horizon. In addition, many stable value products include contractual limitations on large-scale withdrawals that are driven by plan sponsor actions. These limitations are designed to protect plan participants, plan sponsors, and insurers from the impact of bulk withdrawals by helping to ensure that providers can fulfill any guarantees over a long-term time horizon.[4] These and other aspects of stable value products have contributed to the long and successful record of stable value providers in fulfilling their guarantees to participants.

[1] Stable Value Investment Association website.

[2] During the period 1989 to 2009, stable value funds produced an average annual return of more than 200 basis points above the average annual return for money market funds. Source: Dr. David Babbel and Dr. Miguel A. Herce, "Stable Value Funds: Performance to Date," The Wharton School, January 2011. Additional summarization provided by Dr. Babbel and Dr. Herce, February 2011.

[3] In this paper, a "safe" investment option is one that contains certain safeguards and protections (described in this document) that are not present in other investments. No inference should be drawn that a "safe" investment option is free of risk.

[4] Plan sponsors should understand the product design and contractual terms as part of making an informed decision to include stable value as a fund option for participants.

An overview of stable value products

Stable value products provide participants with the benefits of principal protection and predictable returns by combining an investment in high quality intermediate-term fixed income securities with a contract that guarantees the return of a participant's principal and accumulated earnings. Participant earnings accumulate at the crediting rate promised by the stable value guarantor. The crediting rate is usually reset periodically, typically each quarter, and may be guaranteed to be above a specified minimum rate for the duration of the investment.

Stable value products are purchased by individuals and institutions through tax-deferred vehicles. About 95% of stable value assets are held in defined contribution (DC) plans, primarily in 401(k) plans. The remaining 5% are held in other tax-deferred savings plans, such as 529 college savings plans, Taft-Hartley plans, and defined benefit (DB) plans.[5]

Stable value products differ from other financial products in that they are "benefit responsive," which means that participants can typically transact at book value (principal plus accumulated earnings) when redeeming or transferring their investment in a stable value product.[6] As a result, stable value products protect participants against market value risk, i.e., the risk that participants may have to redeem their investment at a time when the market value of their assets has fallen below book value due to fluctuations in bond prices. Stable value products also typically protect participants from loss due to credit risk, i.e., the risk that a bond held in the stable value fund loses value due to default or a reduction in credit rating.[7]

The benefits of stable value products have not gone unnoticed. By the end of 2009:

- Stable value assets reached $561 billion.[8]
- More than 173,000 plans offered stable value products to their participants.[9]
- Roughly half of all DC plans in the U.S. offered stable value products.[10]
- Stable value products represented 14.1% of assets in 401(k) plans.[11]

Plan sponsors have a wide range of stable value products from which to choose

The first stable value products, Guaranteed Investment Contracts (GICs), were introduced by insurers in the 1970s. A GIC is a group annuity contract that guarantees the return of a participant's principal and accumulated earnings for a set period of time. In 1994, a new type of stable value product, known as a synthetic GIC, was introduced.[12] With this product structure, plan sponsors retain ownership of the underlying assets. Synthetic GICs include two distinct elements: a sponsor-owned investment portfolio and a guarantee known as a stable value "wrap." The types of stable value products available to plan sponsors today are described below.

[5] Stable Value Investment Association, "14th Annual Stable Value Investment & Policy Survey," 2010.

[6] Financial Accounting Standards Board, "Reporting of Fully Benefit Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined Contribution Health and Welfare and Pension Plans, FSP AAG INV-1 and SOP 94-4-1."

[7] Most stable value products (i.e., general account stable value funds, separate account stable value funds, and insurance based synthetic guarantees) protect against credit risk. Some products limit the degree of credit risk protection provided.

[8] Stable Value Investment Association, "14th Annual Stable Value Investment & Policy Survey," 2010.

[9] Ibid.

[10] Stable Value Investment Association website.

[11] Cerulli Associates, "Cerulli Quantitative Update – Retirement Markets, 2010," 2010. p. 86. Data represents all plans including those that do not offer stable value products.

[12] Dr. David Babbel and Dr. Miguel A. Herce, "Stable Value Funds: Performance to Date," The Wharton School, January 2011, p. 2-3.

- **General account stable value funds.** An insurer serves as both the investment manager and the guarantee provider. The insurer guarantees the plan's principal against any loss, including the default of any underlying securities, and also guarantees that the crediting rate will never fall below a stated minimum rate. The assets are invested by the insurer within its general account, which supports all of the liabilities of the insurer across multiple lines of business. *(Constituted 41% of stable value assets in 2010)*[13]

- **Separate account stable value funds.** These products differ from general account products in that the plan's assets are invested in an insurance separate account rather than the insurer's general account.[14] Generally, assets in the separate account can only be used to satisfy claims related to the investments made in the separate account, and are insulated from any claims on the insurer's general account. However, the guarantees offered to participants remain backed by the full faith and credit of the insurance company. *(Constituted 7% of stable value assets in 2010)*

- **Insurance based synthetic guarantees.** These products, also known as synthetic GICs, enable plan sponsors to retain legal ownership of the underlying fixed income assets. The assets can be passively or actively managed either in-house by the plan's investment staff, or by a third-party investment manager. The assets are then "wrapped" by an insurer. The wrap provider guarantees the return of participants' principal and accumulated earnings. *(Constituted 20% of stable value assets in 2010)*

- **Global wrap stable value funds.** These products differ from insurance-based synthetic guarantees in several ways. A stable value manager holds the plan(s)' assets in a single investment vehicle, which may be allocated across several investment managers. Multiple plans may invest their assets on a pooled basis in the investment vehicle. The stable value manager then engages multiple wrap providers – such as insurers, banks, or other financial products companies – who enter into a global wrap, which extends coverage to portions of the investment vehicle and the investment management strategies within it. The wrap providers guarantee the return of participants' principal and accumulated earnings. Each wrap provider typically agrees to proportionally assume the obligation of any global wrap provider that is unable to fulfill its obligations, usually for a limited period of time ranging from 30 to 90 days. *(Constituted 32% of stable value assets in 2010)*

  However, these funds generally do not provide a minimum crediting rate above zero, and also do not guarantee the return of principal under certain conditions, such as defaults above a specified level of underlying securities in the portfolio. More recently, stable value managers and wrap providers have favored stand-alone wrap guarantees over the global structure.

[13] Prudential calculations based on: Stable Value Investment Association, "14th Annual Stable Value Investment & Policy Survey," 2010.

[14] These products may include investments in GICs.

Exhibit 1 provides a comparison of the different stable value products.

Exhibit 1: Comparison of Stable Value Products

	General Account Stable Value Funds	Separate Account Stable Value Funds	Insurance Based Synthetic Guarantees	Global Wrap Stable Value Funds
Guarantee and asset management provider	• Insurer provides guarantee and manages assets	• Insurer provides guarantee and usually manages assets	• Insurer provides guarantee • Assets can be managed in-house by the plan sponsor or by an external manager	• Multiple wrap providers provide guarantee • Pooled fund provider manages assets
Principal Guarantee	• Unconditional guarantee backed by insurance company • Protects against market risk and credit risk	• Unconditional guarantee backed by insurance company • Protects against market risk and credit risk	• Unconditional guarantee backed by insurance company • Protects against market risk and most credit risks	• Protects against market risk • Does not protect against credit risk (typically no guaranteed return of principal for defaulted securities)
Crediting rate Guarantee	• Minimum crediting rate greater than 0% guaranteed • Rate is reset periodically	• Minimum crediting rate of 0% or greater guaranteed • Rate is reset periodically	• Minimum crediting rate of 0% or greater guaranteed • Rate is reset periodically	• Typically minimum crediting rate of 0% • Rate is reset periodically
Risks if guarantee provider is unable to meet obligations	• Insurance solvency laws give preferential priority to policyholder claims	• Separate account assets used to satisfy claims of the separate account investors • Insurance solvency laws give preferential priority to policyholder claims	• Assets are held by the plan (trustee holds legal title) • Insurance solvency laws give preferential priority to policyholder claims	• Assets are held by the pooled fund (insurer's general account holds legal title) • If a guarantee provider cannot meet its obligations, other providers must step in to fulfill that provider's obligations

This comparison demonstrates one of the key trade-offs that plan sponsors must make in selecting which stable value product to offer within a retirement plan. Insurance based stable value products, i.e., general and separate account products or insurance based synthetic guarantees, provide the most comprehensive guarantees. Participants are relying on the insurer's creditworthiness, but state insolvency laws provide an added layer of protection. Global wrap products provide participants with the benefit of multiple guarantee providers. However, these products generally do not promise a minimum crediting rate greater than 0%, and provide less comprehensive guarantees for the return of principal. For example, these products may not protect participants from losses stemming from the default of any underlying securities.

Plan sponsors seeking a "turn-key" solution can opt for general account stable value products, which only require the selection of a single provider that both manages the assets and provides the guarantee. Plan sponsors that want to insulate their assets from any unrelated claims on an insurer providing stable value products can use a separate account solution, although the guarantee remains backed by the full faith and credit of the insurer. Sponsors of larger plans seeking full control of their assets can select an insurance based synthetic guarantee. Finally, plan sponsors seeking the assurance of multiple wrap providers backing the guarantee can select a global wrap product.

The future role of stable value products in the retirement market

Stable value products have been a mainstay of the retirement market for more than two decades. Going forward, given the fact that the vast majority of stable value assets are held within DC plans, growth in stable value assets is likely to be driven, in part, by the forecasted growth of DC assets from $4.1 trillion in 2010 to $5.5 trillion in 2015.[15] In addition, several other factors are likely to drive greater demand for stable value products:

- Stable value products effectively fulfill the requirements of a "safe" retirement investment option. "Safe" retirement investment options help participants protect their retirement assets at critical times and construct well-diversified retirement portfolios.
- Individuals' interest in and need for "safe" retirement investment options is increasing.
- Stable value products are carefully designed to ensure that product providers can deliver on the guarantees offered to participants.

The rest of this section discusses each of these factors in greater detail.

Stable value products effectively fulfill the requirements of a "safe" retirement investment option

Retirement savers need access to a "safe" investment option through their workplace retirement plans. The definition of what constitutes a "safe" investment option depends on the purpose of the investment. For example, individuals saving for an emergency fund are likely to seek the safety of savings accounts insured by the federal government, because these accounts are highly liquid and provide the highest degree of principal protection. However, retirement savers seeking a "safe" investment option need investment vehicles that not only protect principal, but that also provide sufficient investment earnings to combat the long-term effects of inflation. In fact, a "safe" retirement investment option should satisfy three key requirements:[16]

- **Principal protection.** The investment option maximizes the protection of a participant's original investment and investment earnings.
- **Predictable returns.** The investment option provides a high degree of predictability in the returns that a participant will earn in the near- and medium-term.
- **Sufficient returns.** The investment option has a reasonable likelihood of delivering returns that will outpace inflation in order to avoid a long-term deterioration in the purchasing power of a participant's principal investment.

In addition to stable value products, the primary alternatives available to retirement plan sponsors seeking to offer their participants a "safe" retirement investment option are money market funds and investment grade intermediate-term bond funds. The following is an overview of these two alternatives to stable value products:

- **Money market funds** invest in low risk short-term securities such as government securities, certificates of deposit, and commercial paper. They pay dividends that fluctuate based on trends in short-term interest rates. Although the funds are managed to maintain a constant net asset value of $1 per share, there is no explicit guarantee that this will always be the case.
- **Investment grade intermediate-term bond funds** invest in high quality intermediate-term fixed income securities. Participants can redeem their investment at any time at market value; participants will experience a capital gain or loss based on changes in the prices of the underlying securities due to market fluctuations and/or the defaults of any underlying securities.

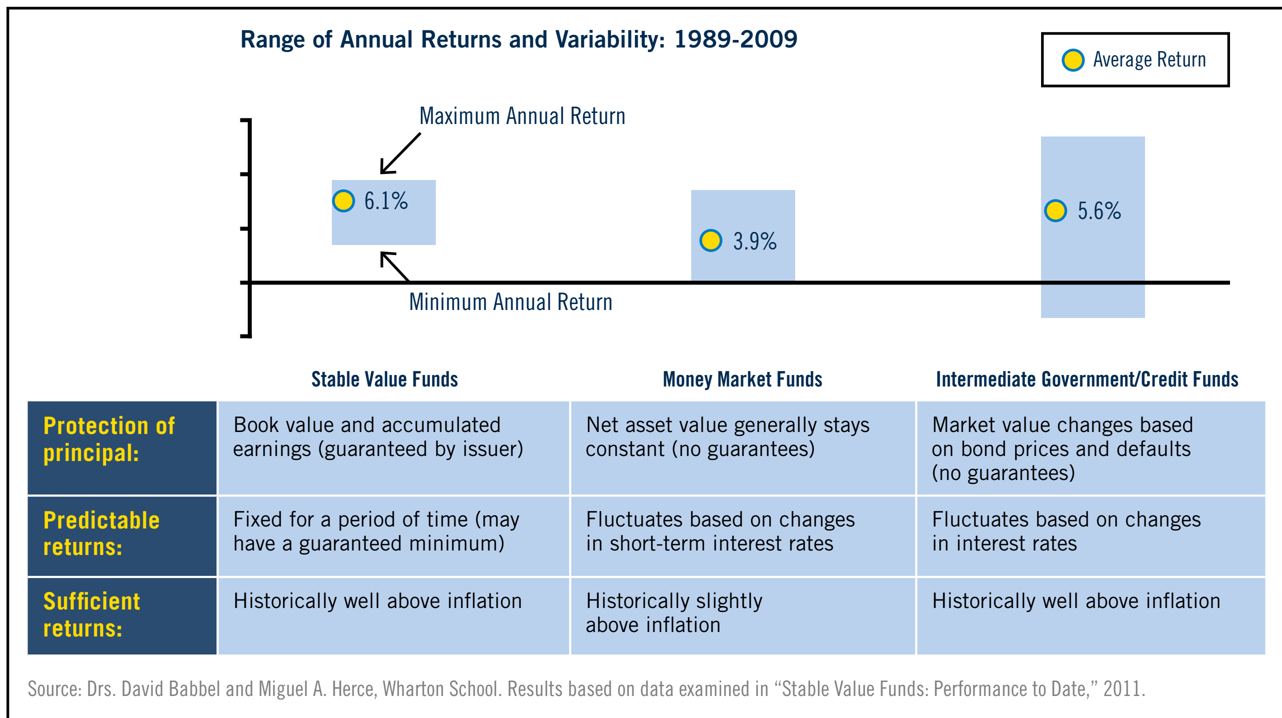
[15] McKinsey & Co., "Winning in the Defined Contribution Market of 2015," September 2010, p. 6-7.

[16] Prudential Financial, "The Search for a Safe Way to Save for Retirement," June 2009.

Dr. David Babbel and Dr. Miguel A. Herce of the University of Pennsylvania's Wharton School conducted a research study to compare the returns of stable value products, money market funds, and intermediate-term bond funds. The results of this research are shown in Exhibit 2.

From 1989 to 2009, stable value products provided an average annual return of 6.1% - higher than that of intermediate term bond funds (5.6%) and money market funds (3.9%).[17] The returns for all three alternatives were well above the average inflation rate of 3.0% during the same period.[18] Stable value returns were the least volatile of the three alternatives, as demonstrated by the range of annual returns for each alternative. In addition, participants selecting stable value generally received the highest level of principal protection, because they were typically guaranteed the return of their principal and accumulated earnings at any time.

Exhibit 2: Comparison of "Safe" Retirement Investment Options[17]



	Stable Value Funds	Money Market Funds	Intermediate Government/Credit Funds
Protection of principal:	Book value and accumulated earnings (guaranteed by issuer)	Net asset value generally stays constant (no guarantees)	Market value changes based on bond prices and defaults (no guarantees)
Predictable returns:	Fixed for a period of time (may have a guaranteed minimum)	Fluctuates based on changes in short-term interest rates	Fluctuates based on changes in interest rates
Sufficient returns:	Historically well above inflation	Historically slightly above inflation	Historically well above inflation

Source: Drs. David Babbel and Miguel A. Herce, Wharton School. Results based on data examined in "Stable Value Funds: Performance to Date," 2011.

This analysis demonstrates that stable value products have fulfilled the requirements of a "safe" retirement investment option for more than two decades. Moreover, stable value products have fulfilled these requirements more effectively than the primary alternatives for a "safe" retirement investment option that are available to retirement plan sponsors. These findings may motivate more plan sponsors to offer stable value products within their retirement plans.

[17] Dr. David Babbel and Dr. Miguel A. Herce, "Stable Value Funds: Performance to Date," The Wharton School, January 2011. Additional summarization provided by Dr. Babbel and Dr. Herce, February 2011.

[18] Bureau of Labor Statistics, "Consumer Price Index Data from 1913 to 2009."

"Safe" retirement investment options such as stable value products are especially important in the years leading up to retirement, because market losses experienced during this period are more detrimental to participants than market losses experienced several years before retirement. This risk, known as the sequence of returns risk, is illustrated in Exhibit 3, which shows how a hypothetical participant's portfolio performs in two different scenarios described below.

- Scenario 1: the participant experiences positive investment returns in the six to 10 years before retirement, and negative returns in the years just before retirement. The participant contributes to her retirement account every year prior to retirement.
- Scenario 2: the pattern of returns is reversed, with negative returns occurring earlier and positive returns occurring later. The average annual return over the modeled time period is identical in both scenarios. The participant contributes to her retirement account every year prior to retirement.

Exhibit 3: Impact of the Sequence of Market Returns on a Portfolio Before Retirement

Key assumptions

- $500,000 starting balance for portfolio in both scenarios
- $20,000 annual contributions to portfolio in both scenarios
- Average annual return of 0% over 11 years in both scenarios
- Negative returns occur during the later years in Scenario 1 and during the early years in Scenario 2

	Scenario 1: Later negative returns		Scenario 2: Later positive returns	
Years to Retirement	Annual Return	Ending Balance	Annual Return	Ending Balance
11	NA	$500,000	NA	$500,000
10	20%	$620,000	-20%	$420,000
9	16%	$739,200	-16%	$372,800
8	12%	$847,904	-12%	$348, 064
7	8%	$935,736	-8%	$340,219
6	4%	$993,166	-4%	$346,610
5	0%	$1,013,166	0%	$366, 610
4	-4%	$992,639	4%	$401,275
3	-8%	$933,228	8%	$453,376
2	-12%	$841,241	12%	$527,782
1	-16%	$726,642	16%	$632, 227
Retirement	-20%	**$601,314**	20%	**$778,672**

Source: Prudential Financial calculations

Notes: This example is hypothetical, intended for illustrative purposes only, and not meant to represent the performance of any particular investment; the hypothetical returns do not reflect any investment or account fees.

The participant's portfolio fares much worse in Scenario 1, highlighting the risk posed by negative returns just before retirement. The reason for this is that the participant will have contributed more to her retirement plan by the time she approached retirement, thereby exposing a greater amount of her savings to negative returns.

"Safe" retirement investment options also help participants construct well-diversified retirement portfolios. The goal of portfolio construction is to build efficient portfolios that achieve a certain level of expected return for the least amount of risk. The most efficient portfolios can be achieved through a combination of a risk free asset, such as a stable value product or money market fund, and a basket of risky assets.[19] The expected return of such portfolios will be the weighted average of the expected returns of the risk free and risky assets. Stable value products enable participants to construct more efficient retirement portfolios, because stable value products have outperformed the alternatives for a "safe" retirement investment option over the last 20 years.

Individuals' interest in and need for "safe" retirement investment options is increasing

Individuals' interest in and need for "safe" retirement investment products is increasing for several reasons:

- **Individuals have become more conservative investors.** In a recent consumer survey, 28% of respondents say they have shifted their investments toward a more conservative risk profile since the financial crisis, while only 12% have become more aggressive.[20] This trend is demonstrated in the asset allocation decisions of retirement savers: the allocation to equity funds within retirement plans decreased from 48% in 2007 to 41% in 2009.[21] In addition, in a recent consumer survey, 60% of consumers said they want as many guarantees on their financial future as they can get.[22] These findings indicate that more consumers are seeking access to "safe" retirement investment options. The appeal of stable value as a "safe" retirement investment option was also demonstrated during the financial crisis of 2008 when retirement plan participants directed $5.3 billion in inflows towards stable value products – the highest inflows to any product category in 2008 and the highest ever annual inflows into stable value products. As a result, the holdings in stable value products went up more than 11.6% to 32.3% by the end of 2008 (for the assets tracked in a Hewitt survey).[23]

- **The workforce is aging.** The portion of the workforce age 55 years or older in the United States is forecasted to increase from 18% in 2008 to 24% in 2018.[24] While older participants need some exposure to equities to fund a retirement that may last decades, they also need access to "safe" retirement investment options that protect principal, in order to protect against the sequence of returns risk discussed earlier.

  Older participants' interest in "safe" retirement investment options is demonstrated by their investment decisions: retirement plan participants in their 60s hold 41% of their assets in bond funds, money market funds, and stable value products, while participants in their 20s hold 17% of their assets in such products.[25]

- **Access to DB plans has declined.** DB plans provide participants with a guaranteed stream of income during retirement, regardless of stock market fluctuation. However, access to DB plans has declined dramatically, thereby increasing individuals' exposure to market risk. Among the roughly 50% of private sector workers with access to any type of retirement plan, the percentage covered by a DB plan has fallen from 81% in 1981 to 32% in 2007.[26] As a result, stable value products are more important than ever as a way to protect retirement assets.

[19] Stable value products and money market funds are not completely free of risk, but do represent the closest proxy for a risk-free investment option available in most retirement plans. As shown in Exhibit 2, the book value and accumulated earnings of stable value products are guaranteed by the issuer; the net asset value of money market funds generally stays constant, but the principal is not guaranteed.

[20] Prudential Financial consumer research, 2011.

[21] Employee Benefit Research Institute, Issue Brief No. 350, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," p. 20-24.

[22] Prudential Financial, "The Next Chapter: Meeting Investment & Retirement Challenges," May 2011, p. 3.

[23] Represents assets in the Hewitt 401(k) Index™. Aon Hewitt, "Monthly Details: Aon Hewitt 401(k) Index™ Observations," December 2008.

[24] Monthly Labor Review, November 2009.

[25] The remaining assets are allocated to balanced funds, company stock, and other investments. Employee Benefit Research Institute, Issue Brief No. 350, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," p. 24-25.

[26] Center for Retirement Research at Boston College calculations from U.S. Department of Labor Form 5500 data, March 2010.

Stable value products are carefully designed to ensure that product providers can deliver on the guarantees offered to participants

Retirement plan sponsors want to be assured that providers of "safe" retirement investment options can fulfill any guarantees offered to participants. Stable value providers are able to deliver on the guarantees they offer to participants via four key mechanisms:

- **Conservative fixed income asset management.** Stable value managers usually invest in high quality fixed income securities to ensure that they can fulfill the guarantees associated with stable value products. Investing in high quality securities minimizes the risk of losses within stable value portfolios as a result of credit defaults.

- **Crediting rate mechanism that passes portfolio experience gradually to participants.** Stable value products transmit investment performance to participants via a crediting rate that may be reset periodically, such as once a quarter, and typically cannot fall below a pre-determined floor. Stable value providers adjust crediting rates to reflect the performance of the underlying securities wrapped by a stable value contract. For example, if the value of the fixed income securities wrapped by a stable value contract declined in value due to fluctuations in interest rates, the stable value provider may gradually lower the crediting rate to reflect this decline in value and to ensure that all participants can continue to redeem their investment for book value whenever they choose to do so.

- **Stable value contract provisions designed to protect plan participants, plan sponsors, and insurers from the impact of bulk withdrawals.** If a plan sponsor abruptly withdrew a significant portion of their plan's assets from a stable value product, the underlying bonds might have to be sold at market values that would result in losses that would then need to be absorbed by the insurer, or the remaining plan sponsors and participants in the product. To protect against such situations, stable value providers generally require that plan sponsors withdraw assets at market value, or receive payment at book value gradually over time.

  In addition, when employer-initiated events, such as large scale early retirement programs, significant staff reductions, or bankruptcy, occur that increase the likelihood of significant participant withdrawals, participants may be restricted from redeeming their investment at book value. Given notice, though, stable value providers may work with plan sponsors in anticipation of these events, and may increase the cash portion of the fund to allow a greater portion of the investments to be redeemed at book value.[27]

  Except for the employer-initiated situations described above, participants can redeem their entire investment at book value at any time. One exception to this is that participants are generally restricted from redeeming their investment to invest in a competing investment, such as a high quality fixed income fund that exhibits a pattern of performance similar to stable value products. This prevents participants from diverting funds from stable value funds when yields on competing investments may surpass the crediting rates on stable value funds. Such participant actions on a large scale might result in losses that would have to be absorbed by the remaining participants in the stable value fund via lower crediting rates. Restrictions that prevent participants from arbitraging interest rates have also helped stable value managers provide higher crediting rates by enabling managers to sacrifice some degree of liquidity when selecting securities in exchange for higher yields.[28]

- **Capital reserves to support stable value guarantees.** The insurance guarantees are supported by both the underlying portfolios and the financial strength and claims-paying ability of the issuing insurance companies, which includes capital that is held to support stable value products. State insurance regulators monitor insurers to ensure sufficient capital is being maintained to support the guarantees they make.

These mechanisms have been very effective in protecting participants. To date, no participant has lost money in a stable value fund, except in a sudden plan sponsor-initiated case where the sponsor did not have time to renegotiate its guarantee provisions or allow the fund to recover its book value.[29]

[27] Stable value contracts typically include provisions under which participants may redeem a portion, typically 10% to 20%, of their investments at book value during an employer initiated event.

[28] Dr. David Babbel and Dr. Miguel A. Herce, "Stable Value Funds: Performance to Date," The Wharton School, January 2011, p. 30-31.

[29] Vidya Bhaktavatsalam and Yalman Onaran, "Lehman Bankruptcy Triggers Loss in Retirement Fund," Bloomberg, December 31, 2008.

Conclusion

Stable value products have proven to be a valuable retirement investment vehicle. However, roughly half of workplace retirement plans in the U.S. still lack a stable value investment option. The plan participants covered by these plans would benefit from having access to a stable value product, because it would provide them with a way to save for retirement with the benefit of the guarantees offered by stable value providers.

Stable value products are being evaluated by regulators and policymakers as they seek to strengthen the financial and retirement systems in this country. These reviews are a valuable opportunity for stable value providers to describe the positive role that stable value products play within retirement and other plans. These reviews should be completed while keeping in mind that the unique benefits of stable value products, such as principal protection, require providers to place certain limitations on plan sponsors and participants. These reviews should also account for the fact that there is a wide range of stable value products and that each type of product requires a tailored regulatory and oversight approach.

Christine Marcks
President
Prudential Retirement

John Kalamarides
Senior Vice President and
Head of Retirement Strategies and Solutions

For more information, please contact the primary and technical contributors:

John Barrasso
Vice President, Head of Stable Value Distribution
1-732-482-8748
john.barrasso@prudential.com

Jim King
Senior Vice President, Head of Stable Value Markets
1-732-482-6902
james.king@prudential.com

Vishal Jain
Senior Vice President, Strategic Initiatives
1-973-802-8293
vishal.jain@prudential.com

William McCloskey
Vice President, Stable Value Markets
1-732-482-8913
william.mccloskey@prudential.com

Prudential
Bring Your Challenges℠

280 Trumbull Street
Hartford, CT 06103

www.prudential.com

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0203402-00002-00
Exp. 06/2013

RSBR778