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IN THIS ISSUE

Making Retirement Income Security Work
By Randy Myers ..................................... 1

The 2014 Elections and What Will They Mean
By Randy Myers ..................................... 1

A Predictable Surprise: The Unraveling of the U.S. Retirement System
By Randy Myers ..................................... 1

Outlook and Trends in Defined Contribution Plans
By Randy Myers ..................................... 4

The Quest to Expand the Use—and Value—of Defined Contribution Plans
By Randy Myers ..................................... 5

Stable Value and Target-Date Funds: Experience and Opportunity
By Randy Myers ..................................... 6

Expanding Stable Value’s Reach
By Randy Myers ..................................... 7

New Wrap Capacity Offers More Opportunity for Growth ... and Competition
By Randy Myers ..................................... 9

Stable Value Managers See More Flexibility on Investment Guidelines
By Randy Myers ..................................... 10

Mark your calendars!
On Monday, September 15th, the nomination process to fill five board seats (four service firm & one plan sponsor) will begin. Even those running for a second term will need nominations.

Making Retirement Income Security Work
By Randy Myers

Stable Value Investment Association Chairman James King is proud to be part of the stable value industry. "It is an important asset class, and it’s part of the fabric of defined contribution plans," he said as he welcomed his industry colleagues to the SVIA’s 2014 Spring Seminar in April. "We should be proud of being stewards of stable value, and of bringing it to retirement plans in the American workplace.”

King, also managing director and senior client portfolio manager in the Stable Value Markets Group at Prudential Financial, isn’t alone in having good feelings about the industry in which he works and the products it delivers. Last year, the SVIA polled 29 firms that have been providing stable value products consistently since 2007. By year-end 2013 those firms had $702 billion in stable value assets under management, representing about 12 percent of the total assets in defined-contribution retirement savings plans. That was up from just over $459 billion at year-end 2007.

That’s solid growth, and it demonstrates that retirement plan participants see a lot of value

The 2014 Elections and What Will They Mean
By Randy Myers

Could a Republican takeover of the U.S. Senate make it easier for President Obama to get things done? Republican businesswoman Gwendolyn King, president of the Podium Prose speakers bureau and a former Social Security commissioner, thinks it’s possible.

Republicans already control the House. Conventional wisdom posits that gaining a lock on both chambers of Congress would make it even more difficult for President Obama to carry out his agenda in the final years of his second term.

Gwendolyn King isn’t so sure. Addressing the 2014 SVIA Spring Seminar, Mrs. King said that if the GOP takes the Senate, Obama could indeed wield his veto pen regularly, extending the political gridlock that has gripped Washington. Or he could move toward the center of the political spectrum in a bid to find common ground with Republicans, move some key legislative initiatives forward, and develop his legacy.

That sort of compromise isn’t impossible, King insisted. “Bill Clinton, even when he

A Predictable Surprise: The Unraveling of the U.S. Retirement System
By Randy Myers

If you think it’s harder for the average American to build a financially secure retirement today than it was a few decades ago, you’re probably right. But the usually cited culprits—the ongoing demise of the defined benefit pension plan, the failure by many individuals to adequately fund their defined contribution plans—aren’t solely to blame. So too, says Sylvester Schieber, is the shaky state of the Social Security system, which will pay most Baby Boomers less than they put into the system.

Schieber is a former chairman of the Social Security Advisory Board and the author of The Predictable Surprise: The Unraveling of the U.S. Retirement System (Oxford University Press, 2012). Speaking in April at the 2014 SVIA Spring Seminar, Schieber noted that an average earning single male retiring in 1975 at the age of 65 could expect to collect, on average, $108,838

continued on page 2

continued on page 2

continued on page 2

continued on page 3
Making Retirement Income Security Work

in stable value funds. But King is encouraging his industry colleagues to deliver even more for plan participants, in part by looking for creative ways to grow the industry. A good start, he suggested, would be to find ways to include stable value funds more frequently in target-date funds. Target-date funds are one of the fastest-growing investment options in defined contribution plans, but most are structured as mutual funds. Stable value is not available in mutual funds, however, stable value funds can be incorporated into customized target-date funds that are structured as collective investment trusts. Many larger plans already operate custom target-date funds with a stable value component. “Using stable value in place of, or as part of, the fixed-income component of target-date funds can make a positive contribution to the performance of those funds and their Sharpe ratios,” King said.

King also encouraged his colleagues to take note of the growing trend among plan sponsors to reenroll their employees into their defined contribution plans, typically slotting employees into the plan’s default investment option unless they opt to allocate their money differently. In most cases, that default investment option is not a stable value fund but a target-date fund. “Stable value is too good and essential an asset class to allow this. As an industry, we need to have simple and available solutions that include stable value in these asset-mixed investment vehicles for plan sponsors to offer. And, these solutions must permit participants to continue to rely upon stable value for its diversification benefits, principal preservation and positive, conservative returns,” King said.

Franklin Roosevelt, Schieber said, tried to warn us. When the Social Security Act passed in 1935, it was written so that Social Security would be a fully funded program in which the government held reserves adequate to pay out future benefits—an approach Roosevelt strongly endorsed. Liberals soon balked, though, because they didn’t want to wait 40 years to build up reserves; they wanted to start paying benefits immediately. Conservatives weren’t enthusiastic either. “They worried about what kind of malarkey future Congresses could get into with all those assets sitting around,” Schieber noted. As a result, Congress repeatedly rolled back Social Security’s funding provisions, and by the early 1950s the program was operating on a pay-as-you-go basis.

That worked for a while, because there were more people contributing to the system than there were collecting benefits. But by the mid-1970s that ratio had inverted, putting the whole program under increasing financial strain. In 1977 Congress cut Social Security benefits and raised taxes, and in 1983 it raised taxes again and initiated taxation of Social Security benefits. But it did not move nearly far enough to put the system on sound financial footing. Today the program would need an immediate injection of about $10.5 trillion to operate smoothly for the next 75 years, Schieber said. It will need...
A Predictable Surprise
continued from page 2

about $35 trillion to be kept alive that long on a pay-as-you-go basis.

Of course, even as the Social Security system was weakening, the private retirement system was changing too. Increasingly unwilling or unable to support defined benefit pension programs, employers in the 1990s began phasing them out in favor of defined contribution plans funded to a large degree by employees rather than employers. By 2011 there were 16.5 million active participants in defined benefit plans, Schieber said, down from 30.1 million in 1984.

All this has meant is that Americans today must devote a far higher percentage of their income to retirement savings than they did in the past if they want to be financially secure after they stop working. Why might you ask? When Social Security was designed, most workers life spans did not extend to Social Security's eligible retirement age, which made it highly unlikely that the majority of workers would collect Social Security benefits. Today, the Social Security Administration estimates that today's retirees, those who have reached age 65 starting in 1990 will receive Social Security benefits for a little more than 15 years if male and almost 20 years if female.

In 1955, Schieber calculates, workers had to contribute 2.1% of their earnings via payroll taxes to fund Social Security, and save another 4.6% on their own—a total of 6.7% of their income—to support themselves in retirement. Today, he estimates, they must contribute 15.3% in the form of payroll taxes (half provided by employers) and save another 7.5% on their own, for a total of 22.8%. By 2035, he projects the equivalent numbers will be 19.9% and 8.5%, for a total of 28.4% of lifetime earnings. "This is why financing our retirement system today seems so much harder than it did when I was starting in business," Schieber said.

There is good news on the retirement income front, Schieber said, today's retirees are in better shape than popularly cited statistics would suggest. The official yardstick of economic status in the U.S. is based on the Census Bureau's Current Population Survey (CPS), which is used to analyze the potential impact of policy decisions in Washington. Schieber contends that the CPS doesn't fully capture the income received by retirees. In 2008, for example, the survey showed that people receiving Social Security benefits also received $5.6 billion in IRA distributions and $222.2 billion in pension and annuity income. But those same people, on their federal tax returns, reported receiving $110.9 billion in IRA distributions—excluding income from Roth IRAs—and reported another $457.3 billion from pensions and annuities.

Still, Schieber concluded, it's important that the country take steps to improve both its public and private retirement systems. In addition to strengthening Social Security, he said, individuals will have to rethink the work/retirement cutoff point and perhaps stay in the workforce longer.

"The system is out of balance," he concluded. "We have to do something to get it rebalanced, and the sooner we can the better we will be. We have to be extremely careful not to delay this until the only way we can deal with this issue is by levying taxes on the next generation—because they're going to face exactly the same thing we're facing. It's not clear their real incomes are going to be any bigger than ours. All we're talking about is passing along a substantial burden that we've not been willing to pay ourselves."