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IN THIS ISSUE

As Market Stabilizes, Stable Value Industry Looks to Growth

By Randy Myers

With the turmoil of the 2008 financial crisis largely in the past, the stable value industry is turning its focus to growth.

The latest SVIA survey of 22 stable value managers shows that from the end of 2012 through the first half of 2014 stable value assets held fairly steady. In total, stable value funds now account for about $721 billion in assets, or roughly 12 percent of the money held in defined contribution retirement savings plans as of 2013.

"That's pretty amazing," SVIA Chairman James King said in opening the 2014 SVIA Fall Forum in Washington, D.C., on October 13.

Continues on page 2

Millennials and Stable Value: Made for Each Other?

By Randy Myers

The millennial generation and the stable value industry may be made for each other.

The young are often painted as risk-takers, but in the case of millennials—those Americans born between 1982 and 2004—old measures may be misleading, says Neil Howe.

Neil Howe is the founding partner and president of LifeCourse Associates, a publishing, speaking and consulting company focused on generational research.

He contends that millennials are more risk averse than their predecessors in Generation X and the baby-boomers.

Continues on page 5

Dodd-Frank Remains Work in Progress

By Randy Myers

Four years after its passage, the Dodd-Frank Wall Street Reform and Consumer Protection Act remains a work in progress. While 73 percent of its rule changes and other requirements were completed by July of 2014, 27 percent were not finished, including 11 percent on which work had not yet begun.

"It won't be until the 10th anniversary of Dodd-Frank that we will know the full range of its impact," said Cady North, senior finance analyst for Bloomberg, in a presentation to the 2014 SVIA Fall Forum in October.

Over the past year, North said, regulators have made progress on a number of Dodd-Frank's directives: writing rules to improve internal controls at credit rating agencies, re-proposing rules for margin and capital on uncleared swaps, addressing some of the confusion on the cross-border application of swaps rules, and approving rules to prevent runs on money market funds.

Continues on page 3

As Market Stabilizes, Stable Value Industry Looks to Growth
Continued from page 1

"It is one of the single largest asset classes available to DC plan participants."

King congratulated SVIA members for holding the stable value asset class together throughout the financial crisis and its aftermath. Now, he said, it is time to devote the same energy to growing the industry via innovative new product development, exploring new markets and perhaps even "cracking the code, potentially, for the IRA market," where stable value funds are not available. King noted that the U.S. Government Accountability Office is taking a second look at Department of Labor guidelines on qualified default investment alternatives, or QDIAs, in defined contribution plans. Stable value was not designated as a QDIA. But King said that SVIA has been in discussions with the GAO, providing it with information about what stable value is, how it works, and ways in which it could function as a principal-preservation QDIA in defined contribution plans. He said he is optimistic that regulators will revisit stable value's potential role in the QDIA lineup.

Stable value has remained popular despite a general decline in interest rates since the financial crisis. That decline has helped push down the average crediting rate offered by stable value funds. Among the managers surveyed by the SVIA, the average crediting rate had fallen to 1.93 percent as of June 30, 2014, down from 4.15 percent at the end of 2008. Still, stable value crediting rates remain attractive relative to the roughly zero percent returns that many money market funds have delivered over the past few years.

King also shared statistics indicating that the much-discussed tightening of investment guidelines for stable value funds in the wake of the financial crisis may not have been as onerous as anecdotal evidence suggested. Since the crisis the average duration of the stable value funds represented in the SVIA Quarterly Characteristics Survey has held fairly steady: 2.87 years as of June 2014, versus 2.84 years as of December 2008. Also, the average credit quality of those portfolios, while still high, actually moved lower over that period of time, to AA- from AA+. SVIA

Collision Course: Social Security and a Slow-Growing Economy

By Randy Myers

Conventional wisdom holds that the Social Security program will soon become insolvent because the number of people collecting benefits has grown exponentially relative to the number of people paying into the system. That is largely true. But it is not the only challenge to the federal retirement program.

In an address at the 2014 SVIA Fall Forum, Jim Kessler, senior vice president for policy and co-founder of the Washington, D.C.-based think tank Third Way, argued that a slower-growth U.S. economy also is contributing to Social Security's poor finances.

From 1950 through 2000, Kessler noted, the U.S. economy grew at an average rate of 3.7 percent. Since then, it's grown at an average rate of 1.8 percent. "I think it's fair to say that the U.S. is now a perpetually slow-growth nation," he said. That's important for Social Security, he said, because wages follow growth. Wages, in turn, are important not only for how they impact the amount of money flowing into the Social Security system but also for how they impact the economy and the financial security of working Americans. From 2001 through 2013, the median household income in the U.S. fell by nearly $5,000, Kessler said. That left household income about $12,000 below where it would have been if the upward trend in income established between 1980 and 2000 had continued.

At the same time that household income is declining, the number of Americans over the normal retirement age of 65 is increasing. Between 2010 and 2030, Kessler said, the number of Americans ages 65 and older will increase by about 80 percent, while the number of people of prime working age—ages 25 to 64—will increase by only 7 percent. Because Social Security is a pay-as-you-go system, the number of Americans paying into the program will be growing more slowly than the number taking money out of the program. That will continue to put pressure on the system's solvency. According to the latest report from the Social Security and Medicare Boards of Trustees, the Social Security trust fund is projected to become insolvent in 2033. The trust fund backing its disability insurance program is expected to be tapped out even sooner, in 2016. All this comes at a time when the federal government's finances are none too pretty, either. In the early 1960s, Kessler said, the federal government was spending about $3 on public investments—space exploration, roads and bridges and so forth—for every $1 on entitlement programs such as Social Security and Medicare. By 2013 it was spending $3 on entitlements for every $1 on public investments, and in another 10 years it will be $6 on entitlements for every $1 on public investments. Similar trends are playing out at the state level, he added.

Kessler said he doesn't believe politicians would ever get rid of Social Security because their constituents would notstand for it. Nor does he believe the government can simply raise Social Security taxes enough to put the program on a path to long-term solvency. He seemed to suggest that the program could be saved by a mix of tax increases and benefits adjustments, which he thinks the American people might support. After all, one recent survey showed that 75 percent of Americans agree that doing what's best for the country may mean doing things they don't like. "It's controversial, but not so controversial that politicians can't survive it," he concluded. SVIA