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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.

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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.

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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.

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Save the date: SVIA's Tenth Spring Seminar, April 12-14, 2015 in Key Biscayne, FL

An Appraisal: ERISA at 40

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Now, Donald Myers said, the Labor Department must consider what it will do if it finds those disclosures to be inadequate, or if it sees an inappropriate reaction to those disclosures by plan sponsors or plan fiduciaries.

Litigation

The additional disclosures that service providers must now make are required under Section 408(b)(2) of ERISA. Michael Richman, of counsel to Morgan, Lewis & Bockius' Employee Benefits and Executive Compensation Practice Group, said no discussion of 408(b)(2) is complete without a discussion of litigation.

He noted that over the past decade the plaintiffs' bar has been more active in filing lawsuits against plan sponsors in two major areas: declines in company stock price where company stock was held in an employer-sponsored retirement plan, and excessive fees. Increased fee disclosure under Section 408(b)(2) could provide additional fodder for the plaintiffs' bar, he remarked.

Stable value: thriving amid the change

Gary Ward, senior vice president and head of stable value for Prudential Retirement, which is part of Prudential Financial, noted that throughout the 40-year history of ERISA stable value funds have continued to play an important role in the retirement plan marketplace. But, he cautioned, the stable value industry must continue to exert its influence on retirement plan policy, particularly around the issues of making sure plans are available to as many American workers as possible and that those plans are up to the task of providing workers with a financially secure retirement.

Stable value can play an important role in those plans, Ward noted, not only for participants looking for stable and reliable investment returns but also for those looking to convert their savings to retirement income.

The stable value industry can also further its cause by staying involved in government efforts to expand the private retirement system, whether through the introduction of new individual retirement accounts such as the federal MyRA or through the expanded use of multiple small-employer plans, Ward said. One way the industry can do that, he said, is by working toward developing a simple and standardized approach to stable value, something retirement plan advisors and their clients increasingly value. SVIA

Millennials and Stable Value: Made for Each Other?

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That could be good for the stable value industry as millennials begin saving for retirement, since stable value funds are conservative investments offering principal preservation and interest rate stability that are not available from most other investment products.

One way we know millennials are risk averse is by their behavior, Howe said at the 2014 SVIA Fall Forum. The violent crime rate for offenders ages 12 to 20 peaked in the early mid-1990s, when Generation X last occupied those age brackets, and has since fallen by 75 percent.

Meanwhile, surveys show that substance abuse rates are at their lowest levels ever for students in grades 8, 10 and 12. Elsewhere, the percentage of teens applying for drivers' licenses fell over the 25 years from 1983 to 2008. And finally, data and surveys shows that older millennials are leery of investing in stocks.

"Risk-taking and independence no longer attract this generation," Howe said.

He expressed little surprise at the development. He contends that generations cycle through four archetypes: the heroes (such as the "government issue," or G.I., generation that came of age in the 1920s and 1930s), the artists (the "silent generation" that followed the G.I. generation), the prophets (the Baby Boomers) and the nomads (Generation X).

The millennials, Howe said, remind him in many ways of the G.I. generation, which also eschewed risk-taking by turning inward, to family, amid the turmoil of the Great Depression. In fact, he said, millennials are much closer to their parents than previous generations were. In one recent survey, 82 percent of teenagers reported having no problems with any family member, up from 75 percent in 1983 and 48 percent in 1974.

Howe said millennials are accustomed to being protected by their parents and feeling special, and want to be good citizens and team players. He concluded that organizations that want to market to them should factor these attitudes into their messages. SVIA