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Transforming Tomorrow: Awakening the Super Saver

By Randy Myers

Stig Nybo has spent most of his career promoting best practices for qualified retirement plans, but his commitment to that task took a more personal and passionate turn about four years ago. The catalyst was an incident that occurred during a simple walk through a parking lot with his two young sons. En route to their car, they passed an elderly woman who got out of an old Volvo, folded a blanket, and placed it inside the trunk of her car—a car filled with personal belongings. Nybo recognized that the woman was living in her car, and he had a long and ultimately unsatisfactory conversation about the incident during the ride home with his sons. The conversation was unsatisfactory, he explains, because he couldn't point to the usual culprits for the woman's circumstances: vagrancy, for example, or drug addiction. "In fact, when I looked at this woman, she reminded me of my own mom, who is comfortably retired."

It was at that point, Nybo told participants at the 2013 SVIA Fall Forum, "that I realized

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Dodd Describes His Work on Signature Bill as Once-in-a-Lifetime Opportunity

By Randy Myers

Former U.S. Senator, Christopher Dodd

Groundbreaking legislation generally springs from extraordinary circumstances. In the case of the far-reaching Dodd-Frank Wall Street Reform

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Stable Value Seen Outperforming Other Fixed-Income Sectors in Rising Rate Environment

By Randy Myers

Rising interest rates are generally bad for fixed-income investments, but perhaps not as bad for stable value funds as for some other short-term sectors of the bond market.

Researchers at New York Life Investment Management recently looked at how six different asset classes have performed in the past during periods of steadily rising interest rates and modeled how they might perform during a four-year period of rapidly rising rates.

In those models, U.S. equities generated the highest returns by far—about 9 percent annually, on average, said Michael Sipper, director of stable value investments for New York Life Investment Management, speaking at the 2013 SVIA Fall Forum. The next best performing asset classes were high-yield fixed income and international equities, both generating average annual returns of about 5 percent. Stable value funds followed with performance a little under 5 percent annually, then 3-month Treasury bills (a proxy for money market funds), then long-term bonds, and finally intermediate-term bonds.

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Evaluating Fiduciary Risks

By Randy Myers

Over the past decade, the retirement plan industry has been subject to a wave of litigation under the Employee Retirement Income Security Act. Allegations have included breaches of fiduciary duty in connection with excessive fees for both investment management and record-keeping services.

In a presentation at the 2013 SVIA Fall Forum, Jeremy Blumenfeld, a partner in the Labor and Employment Practice Group at Morgan, Lewis & Bockius LLP, said these ERISA lawsuits can be segmented into three categories. In the first, cases tend to be filed only against plan sponsors. In the second, service providers are named as defendants, too, making all communications between sponsors and vendors subject to discovery. In the third, claims are brought against service providers by class-action lawyers representing groups of small retirement plans.

From the left: Stephen Kolocotronis, Fidelity Investments; Jeremy Blumenfeld, Morgan Lewis & Bockius LLP; Michael Richman, Morgan Lewis & Bockius LLP

A few trends can be discerned, Blumenfeld said. One is that while there is no "magic number" in terms of what is a reasonable investment management fee, plaintiffs' attorneys have tended to focus on actively managed investment options, which are usually more expensive than passively managed options. Another is that plaintiffs' attorneys often try to discern which retirement plans are most profitable to service providers, and allege that those are the plans being overcharged.

Three current cases bear close watching, Blumenfeld said. One is a lawsuit filed by plan participants against ABB Inc. in which a U.S. district court in Missouri awarded $35.2 million in damages against ABB and related defendants. That case is on appeal, Blumenfeld said. It revolves around an allegation that the plan substituted one investment option for another not because it thought the new option would outperform but because it would generate revenue for one of the plan's service providers. "There wasn't proof of this," said Blumenfeld, whose firm represented ABB. "The principal evidence the plaintiffs offered was the fact that the investment option selected underperformed the option that was taken out. That led to roughly half of the damages in that case. The case is now on appeal and is certainly something that will affect the industry and how these cases are brought and litigated."

Another case to watch, he said, is a lawsuit pending against ING Life Insurance and Annuity Co. relating to whether or not ING was a fiduciary with respect to the investment options selected by its plan sponsor clients. It is similar to another suit that was brought against John Hancock Life Insurance Co., which was dismissed without trial by a district court in New Jersey earlier this year, and is also now on appeal.

There has been no particular focus on stable value funds in the fee litigation cases filed to date, Blumenfeld said. Rather, stable value has been treated like other investment options. In an ongoing class-action case involving Lockheed Martin, for example, plaintiffs have charged that they didn't earn as much as they could have in their stable value fund because its portfolio of safer, less risky investments underperformed one of the Hueler stable value indexes, which averages results for multiple stable value

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Stable Value Outperforms

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To further explore how this might impact investor outcomes, the researchers used these results to create three optimal model portfolios—conservative, moderate, aggressive—and plot them along an efficient frontier. Only two asset classes were needed to create the optimal portfolios, Sipper said: stable value and U.S. equities. The conservative portfolio had an 85 percent allocation to stable value and a standard deviation risk of about 1.5 percent. The moderate portfolio had a 59 percent allocation to stable value and a standard deviation risk just under 5 percent, while the aggressive portfolio had a 21 percent allocation to stable value and a standard deviation risk about 9 percent.

Two important conclusions could be drawn from the research, Sipper said. One was that whether an investor had a conservative or moderate tolerance for risk, stable value could play a significant role in their portfolio—whether interest rates rose steadily or quickly. The other was that without stable value, the only way an investor could hope to achieve the same returns achieved by the model portfolios would be by assuming more risk.