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Does your plan offer stable value funds?

ACCORDING to PLANSPONSOR's 2014 Defined Contribution (DC) Survey, overall, less than two-thirds (59.7%) of plans offer stable value funds.

For plan sponsors debating the addition of a stable value offering to their lineups, Jim King, managing director of strategic relationships at Prudential Retirement, sees a solid place for this option on a streamlined investment menu. "Stable value is an anchor for DC portfolios," he says.

Interest in the asset class has grown significantly in recent years. "In 2007, stable value assets were about $535 billion; at the end of 2013, the asset class [had grown] to about $721 billion—that's a 35% increase over that time frame," King notes. That high rate of adoption through and after the financial crisis indicates that "plan sponsors see a significant benefit in offering stable value in their plans, and participants uptake stable value when it's available," he says.

Prudential conducted a study to review the average annual returns of several asset classes over the 15-year period from 1999 through 2013. "We found that intermediate-term bonds over that time frame had an average annual return of 4.98%; stable value returned 4.48%." While money markets underperformed inflation—which King calls a "real dollar loss of value"—stable value "takes the best characteristics of intermediate-term bond returns and money-market-like protection of principal."

"If you're a fiduciary looking at an investment lineup, you can find comfort in the fact that stable value performed well over the long term," King says. Unlike a bond that may experience volatility as interest rates increase and decrease, stable value has a "rate reset mechanism," which, he says, "smoothes out any of the changes in the market value of the underlying bonds." Stable value "has performed as designed; it has enabled participants to transact at book value, which is their contribution plus accrued interest, virtually in any kind of market condition."

Interested retirement plan sponsors need to ensure that their participants adopt the asset class in an age-appropriate manner. Stable value is a conservative option, and usage should be concentrated among those near or in retirement, to protect the "nest egg." Younger investors may benefit from having some assets in stable value, but "it's being newly discovered by Baby Boomers, especially those who have gone through the 2008 and 2009 financial crisis," King says. It has been "very well adopted and received by the plan sponsor community." —*Sara Kelly*