STABLE VALUE EXIT PROVISIONS

INTRODUCTION

Stable value products utilize contracts issued by financial institutions that are benefit responsive, meaning **participants** can withdraw their original deposit amount plus accrued interest (which is called contract or book value) for normal participant transactions on a daily basis. However, when a **plan sponsor** seeks to liquidate a stable value product their liquidity or coverage of those withdrawals at contract value may be limited. The termination of a stable value product may be subject to certain exit provisions, which are outlined in the product's stable value contracts.

Exit provisions stipulate the required notice, the timeline, and the conditions that need to be satisfied for the plan sponsor's withdrawal from or termination of the stable value product to be covered at contract value. These provisions typically become applicable or more restrictive when the market value, which is the value of the fixed income securities underlying the contracts, is less than the contract value guaranteed by the issuer.

WHY ARE EXIT PROVISIONS NECESSARY IN STABLE VALUE CONTRACTS?

Exit provisions enable stable value contracts to provide the best of both worlds – performance of intermediate duration bond portfolios combined with the liquidity and stability of capital preservation investments.

Stable value contracts provide daily liquidity for participant-initiated withdrawals; however, the underlying assets supporting the contracts are typically invested in fixed income securities with an average duration of three to four years for individually managed accounts (i.e., accounts specific to a plan sponsor), pooled funds, and insurance company separate account products, and five to seven years for insurance company general account products.

When interest rates rise or spreads widen, this may cause fixed income securities to decline in value, and the market value of the stable value product's underlying assets may fall below the contract value. When the market value of the stable value product's underlying assets is less than the contract value, the stable value contract issuer stands ready to fund the difference between contract value and market value when necessary for eligible withdrawals.

The issuers of stable value contracts require exit provisions to protect against the risks posed by large, less predictable withdrawals. Without exit provisions, the issuers may require more restrictive limits on the product's underlying assets, which may lead to much lower returns for participants, or may be unwilling to issue the contracts altogether. Exit provisions allow the contract issuer to manage withdrawal risk while providing the stable value's unique combination of principal protection and attractive returns.

HOW CAN A PLAN SPONSOR FULLY EXIT (TERMINATE) A STABLE VALUE CONTRACT AT CONTRACT VALUE?

For certain stable value products, plan sponsors have the option to terminate the product with appropriate notice and receive the underlying assets or their proceeds at market value (sometimes known as a market value adjustment or "MVA"). To exit at contract value, exit provisions vary by stable value product type, contract issuer, and in some cases by plan type. Below is a table summarizing the exit provisions for different stable value product types:

STABLE VALUE PRODUCT TYPE	AVERAGE DURATION[1]	EXIT PROVISIONS
Pooled Funds	3.11 years	Generally, will provide for termination at contract value with 12-month notice (i.e., "twelve-month put"); for some products, notice periods can be longer and termination provisions may be subject to the discretion of the trustee. Termination prior to the expiration of the twelve-month put may be subject to a market value adjustment when market value is less than contract value.
Individually Managed Accounts	3.37 years	Generally, require termination at market value or must be managed to wind down the account; wind down periods may initially be set equal to the duration of the underlying assets but may extend until the market-to-contract value ratio equals 100% (par), subject to limitations (e.g., up to 10 years)
Insurance Separate Accounts	4.07 years	Varies from 3 to 10 years; may also require structured payout over multiple years.
Insurance General Accounts	7.45 years	Varies from 3 months to 10 years; may also require structured payout over multiple years.

1. SVIA 1Q2023 Quarterly Characteristics Survey

In general, stable value products (e.g., insurance company general account or insurance company separate account products) that may invest their underlying assets with longer portfolio durations or in less liquid securities will typically have more restrictive exit provisions. Any restrictions placed on plan participant deposits to or withdrawals from the stable value product or the ability for the plan sponsor to make plan changes during the termination period should be an important consideration in evaluating stable value product exit provisions.

In conclusion, plan sponsors agree to certain restrictions in their ability to terminate the product, or initiate plan related events (referred to as Market Value Events) that could lead to significant withdrawals from the product, in order to provide participants with the unique benefits offered by stable value – principal protection, attractive expected returns, and daily liquidity. Thus, it is important for plan sponsors and their advisors to understand a stable value product's exit provisions and any limitations on other plan sponsor-initiated withdrawals prior to investing.

For current stable value statistics, please visit [Stable Value at a Glance].