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Stable Value Managers Advised to Remain Defensive

By Randy Myers

With the outlook for global economic growth firming, the Federal Reserve appears poised to continue raising its target for short-term interest rates. Brandon Kanz, senior principal and head of credit for Galliard Capital Management, says that may not deliver the benefits many fixed-income investors desire.

Despite the Fed's more accommodative monetary policy, Kanz warns that the U.S. economy isn't likely to rev up, on a sustained basis, to the levels it enjoyed before the 2008 financial crisis. Meanwhile, he notes, interest rates around the world remain near historic lows. He predicts this will leave fixed-income investors fighting the same battle they've been fighting for nearly a decade now: searching for yield. And to his way of thinking, they shouldn't be too aggressive in their hunt—especially if they're managing stable value portfolios.

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Targeting Target-Date Funds

By Randy Myers

For years, the stable value industry has been trying to figure out how to have its product better represented in target-date funds, with modest results. At the 2017 SVIA Fall Forum, industry leaders talked about the challenges they've faced on this front and what they might do about it.

"I think there are many who still view target-date funds and stable value as two things that generally just disagree, so we have a lot of work to do," said Greg Jenkins, head of the institutional defined contribution business at investment manager Invesco Ltd. "And I think there's a lack of guidance from the industry on that."

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Defense Litigator Sees Improving Legal Landscape for Stable Value Industry

By Randy Myers

The terms "good news" and "class-action lawsuits" don't pair together very often, but for the stable value industry they have.

Earlier this year, at the SVIA's 2017 Spring Seminar in April, Mark Blocker, a partner with the law firm of Sidley Austin LLP, had cautioned that it was hard to predict how the industry would fare in the rash of lawsuits that had been filed over the past few years against stable value funds. In October, addressing the SVIA again at its Fall Forum, Blocker delivered a decidedly more upbeat message.

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Stable Value Managers Advised to Remain Defensive

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Speaking at the SVIA's 2017 Fall Forum, Kanz said three traditional ways to boost the yield on a fixed-income portfolio—by extending its duration, taking on more credit risk or increasing the allocation to agency mortgage-backed securities—are all problematic right now.

- Duration: The Treasury yield curve is the flattest it's been since 2007, Kanz noted, which means the reward investors get for moving out on the curve isn't commensurate with the risk they're taking. Meanwhile, yields on the 10-year Treasury note, while above their post-crisis lows, are still lower than they've been at any other time since 1950. Accordingly, he sees more room for rates to move higher than lower.
- Credit risk: While corporate earnings remain healthy, and corporations themselves aren't extraordinarily leveraged after accounting for the cash on their balance sheets, positive fundamental factors like those could be overwhelmed by less favorable technical factors, Kanz warned. He noted that spreads between corporate bonds and Treasuries are near the tightest levels seen since the 2008 financial crisis, meaning that once again investors aren't getting as much reward as they would want for taking on more risk in the credit sector. He advised fixed-income managers to maintain a defensive position by focusing on higher-quality issuers, overweighting the front end of the yield curve and maintaining a high level of diversification within their portfolios. He also suggested they be on the lookout for, and wary of, companies that might over-leverage their balance sheets to fund shareholder rewards or pay for mergers or acquisitions.
- Agency MBS: The Federal Reserve owns about $1.7 trillion in mortgage-backed securities purchased as part of its quantitative easing program since the financial crisis. That's equal to about 29 percent of the MBS market. The Fed is now preparing to start unwinding those purchases, and even though it plans to proceed at a measured pace the net supply of MBS will likely increase substantially starting next year, Kanz said. Such an increase will likely have an adverse impact on pricing. He also noted that as securities with negative convexity, MBS have both prepay and extension risk, and as such would underperform securities with positive convexity in a rapidly changing interest-rate environment, should one arise. He recommended that stable value managers adopt a neutral position in the asset class while watching for opportunities to increase exposure if the market cheapens. He also recommended they focus on shorter-tenor mortgages, or look for unique opportunities to pay up for better convexity relative to generic pass-through securities.

While the current environment is generally challenging for fixed-income investors, Kanz said stable value is in a good position relative to competitors. Average stable value yields of 2 percent are approximately 100 basis points higher than yields on money market funds, for example. He said stable value also compares favorably with longer-term fixed-income products where the flat yield curve is limiting the benefits of extending duration. By way of example, he noted that the duration of the Barclays Aggregate bond index is about 3.5 years longer than the duration of the typical stable value fund, while offering a yield advantage of approximately 50 basis points.

"The final option for stable value managers is to simply stay defensive," Kanz concluded. "The temptation to invest in more aggressive structures and riskier products is generally a sign we are approaching the end of a cycle. We feel the best course of action is to stay true to the purpose of stable value, focusing on principal preservation by maintaining a high-quality, diversified portfolio and making sure we protect our clients from whatever risks may come next."

Save the date: SVIA's Spring Seminar, April 29-May 1, 2018 in Orlando, FL

Targeting Target-Date Funds

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Speakers:
LeAnn Bickel, Chief Administrative Officer - Stable Value, Invesco Advisers, Inc.
Susan Graef, Principal, The Vanguard Group
Greg Jenkins, Head of Institutional Defined Contribution, Invesco Advisers, Inc.

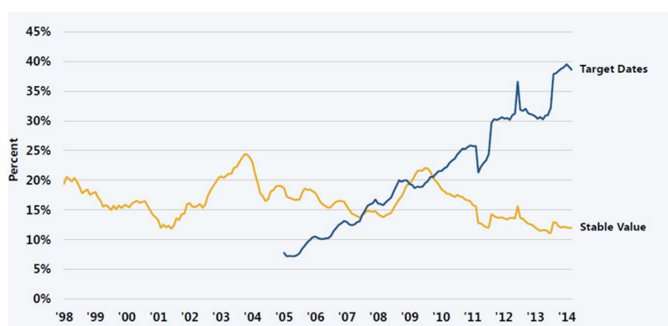
Jenkins was joined in a panel discussion of the topic by LeAnn Bickel, chief administrative officer for stable value at Invesco, and Susan Graef, a principal and portfolio manager with the stable value team at The Vanguard Group.

Target-date funds have been the fastest-growing asset class in defined contribution plans since the Department of Labor designated them a qualified default investment option in 2007. However, nearly all off-the-shelf versions are structured as mutual funds, a structure not available to stable value funds. Accordingly, the stable value community has focused primarily on trying to get stable value included in custom target-date funds structured as collective investment trusts and used principally by very large retirement plans. However, Jenkins said that of the approximately 150 target-date fund arrays he's been able to identify, only about 15 to 20 have a stable value component. Vanguard and some other investment managers have been able to place their stable value funds in collective trusts used in the 529 college savings plan market, but Graef noted that the 529 market differs from the 401(k) market in material ways, featuring younger plans with shorter investment horizons.

Even with those differences, Graef said, the biggest challenge to breaking into the 529 market was the same one the industry faces in the retirement plan market: getting users confident with the stable value product.

Despite the challenges, Jenkins said target-date funds are an opportunity too big to ignore, especially as collective trusts continue to capture a bigger share of the target-date market. He advised his colleagues in the SVIA to start focusing less on making the investment case for including stable value in target-date funds and more on resolving the structural challenges of doing so—and on educating target-date managers, plan sponsors and plan consultants on the solutions. Among the challenges: getting those three groups to accept the restrictions on stable value funds that stem from employer-sponsored events—or doing away with the restrictions altogether—and assuring those groups that the stable value industry has enough wrap capacity to handle their business. Many plan sponsors, Jenkins said, remain scarred by memories of the wrap capacity crunch that temporarily struck the industry during and immediately after the 2008 financial crisis.

Historical DC contributions (6-month moving average)



Source: Aon Hewitt 401(k) Index

Jenkins also encouraged his SVIA colleagues to follow the example of a private real estate industry group to which he belongs. In seeking to promote the use of their asset class in collective trusts, he said, that group came together to develop best-practice papers and other resources for potential clients and spoke with one voice to collective trust managers.

"That's what we have in mind—create a working group," Bickel quickly noted. That would allow the industry to coalesce around strategy and speak with a common voice to asset managers, plan sponsors and plan consultants, she elaborated.

Defense Litigator Sees Improving Legal Landscape for Stable Value Industry

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Speakers:

Mark B. Blocker, Partner, Consumer Class Actions, Sidley Austin

Robert P. O'Keefe, Partner, Insurance and Financial Services, Sidley Austin

"Today, as I speak to you, the future of stable value litigation as an ongoing enterprise for plaintiffs' class-action lawyers looks much clearer," Blocker said. "I think there's a chance, over the next year or two, that you'll see stable value litigation decline. Not totally disappear. But a lot of the types of cases you've seen, you're not going to see again in the future."

A litigator specializing in consumer class-action cases, Blocker attributed the improved outlook largely to the fact that in the cases decided since his last talk before the SVIA, the defendants—stable value funds—had largely been winning.

Blocker classified the cases against stable value funds into three categories, and provided an update on each group:

Pooled stable value funds: Of the three cases brought against pooled stable value funds, claiming either that the funds had invested too conservatively or too aggressively, two have now been dismissed, Blocker reported. "I think it shows courts are starting to understand stable value," he said. In the cases where the defendants prevailed, courts upheld the idea that conservative investment guidelines imposed by wrap providers right after the 2008 financial crisis weren't necessarily unreasonable. Nor, they said, were conservative performance benchmarks that had been prudently selected. The courts also rejected the idea that a stable value fund could be held liable simply because its returns lagged those of an industry average.

"There is one (pooled fund) case remaining, and I think it will be a very difficult case for the plaintiffs to win on appeal," Blocker said. "Unless it comes out badly, or there is a very large settlement, I think we may be close to an end on these kinds of cases."

Single-company stable value funds: In the two cases against single-company stable value funds, Blocker said, one older case has settled, and the other was dismissed but is now on appeal. In the dismissal ruling, the court again agreed that the investment process matters more than the result, that deviation from an industry average means nothing, and that it's not enough for plaintiffs to suggest ways a fund could have performed better using hindsight.

Blocker said the case on appeal could be significant for the stable value industry because it could help to resolve once and for whether the claim that underperforming the arithmetic mean of a broad group of stable value funds is grounds for legal action.

General account fixed-income products: There have been eight claims filed against insurance companies that offer general account fixed-income stable value products. The lawsuits allege that the insurance companies are ERISA fiduciaries, and as such unlawfully profited from the "spread" between the crediting rates they paid on their products and what they earned on their underlying investment portfolios. Most of the cases have been allowed to proceed thus far, Blocker said, with courts saying they need more information about whether the companies are, in fact, fiduciaries in these cases. In one case, however, the court found that there was no spread and dismissed the lawsuit. In another, the court denied class certification to the plaintiffs. Two cases have been allowed to proceed as class actions, Blocker said, and requests for class-action status are pending in several others. There have been no settlements.

Blocker also noted that there have been four lawsuits against plan sponsors claiming they breached their fiduciary duty by offering a money market fund or similar fund, rather than a stable value fund, in their defined contribution retirement savings plans. In one case, the plan sponsor has prevailed. In another the defendant settled. Two other cases remain open. One of those, involving plan sponsor American Airlines, is cause for concern, Blocker said.

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Defense Litigator Sees Improving Legal Landscape for Stable Value Industry

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The case revolves around American Airlines' use of a credit union fund rather than a stable value fund. American Airlines and the plaintiffs last year agreed to settle the suit for $8.8 million, but a federal judge refused to certify the settlement over concerns it was too small. More recently, the two sides submitted a proposed $22 million settlement, which, at the time of Blocker's presentation, had received preliminary but not final approval from the court.

"What does the future hold?" Blocker concluded. "When I spoke at the Spring Seminar someone asked when the madness will end. For pooled funds, I think we may be near the end of the madness. For single funds, I also think we're near the end of the madness. We still need further illumination on general account cases; the motion to dismiss rulings thus far haven't provided a lot of guidance. As for the failure-to-offer-stable-value cases, we should know more in one year." SVIA

Consultants See DC Plans Continuing to Improve, Creating Opportunities for Stable Value

By Randy Myers

Speakers:

Winfield Evens, Director of Solutions and Strategy, Alight Solutions

Jacob Punnoose, Partner, Retirement and Investment, Aon Hewitt

Employer-sponsored retirement savings plans are working harder than ever for plan participants, according to a new survey by benefits administration company Alight Solutions. And that would seem to spell opportunity for stable value.

Winfield Evens, director of solutions and strategy for Alight, told attendees at the SVIA's 2017 Fall Forum that employers are using three common techniques to enhance their defined contribution plans. First, they're making it easier for employees to save for retirement, both by making employees immediately eligible to participate in their plans and by automatically enrolling them in their plans. Second, they're making it easier for plan participants to diversify their portfolios by offering Roth accounts within their plans, along with managed accounts and white-label investment options. Finally, they're seeking to minimize plan leakage by limiting the availability of loans from their plans and educating participants about how loans can impact their financial security in retirement.

Evens noted that 68 percent of plans polled in Alight's 2017 Trends & Experience in Defined Contribution Plans survey now make use of automatic enrollment, up from 14 percent in 2001. Just as importantly, plans are increasing default contribution rates; 33 percent now default at 6 percent of employee pay or greater, compared with only 6 percent a decade ago. In addition, 47 percent of plans now default at the employer match threshold, up from 36 percent just four years ago.

As for where they're sending employee contributions, the great migration to target-date funds is now largely complete. Eighty-one percent of plan sponsors have made target-date funds their default investment option. Nine percent use target-risk funds, 5 percent use managed accounts, 2 percent use stable value funds and 3 percent use some other type of investment option.

The growing popularity of target-date funds, which began in earnest when the Department of Labor designated them a qualified default investment option in 2007, has coincided with a decline in the percentage of assets allocated to stable value. In the 2017 survey, Evens said, plan sponsors reported 11 percent of their plans' assets in stable value, down from 23 percent two decades earlier.

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Consultants See DC Plans Continuing to Improve, Creating Opportunities for Stable Value

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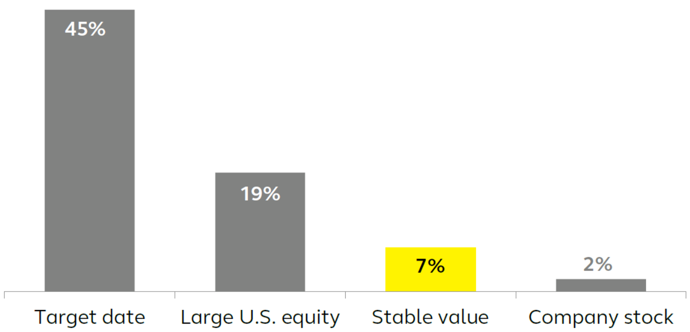
Overall, the asset class is now attracting 7 percent of all new money allocated to defined contribution plans surveyed by Alight, while 45 percent is going into target-date funds.

Contribution allocation according to Alight 401(k) Index



Source: Alight Solutions 401(k) Index™

Despite these trends, Evens noted that stable value as an asset class continues to grow on an absolute basis as total assets in defined contribution plans continue to grow. In remarks opening the Fall Forum, SVIA Chairman Steve Kolocotronis, associate general counsel of Fidelity Investments, noted that stable value assets had grown to $821 billion by the end of last year, up 5 percent from the prior year.

Speaking about where the stable value industry could look to boost growth, Evens highlighted the opportunity for managed accounts, which can include stable value in a participants' asset allocation mix and are increasingly popular with plan sponsors. Fifty-one percent of plan sponsors surveyed said they consider managed accounts very effective, Evens said, and 47 percent said they consider them somewhat effective.

Evens was joined in speaking at the SVIA Fall Forum by Jacob Punnoose, a partner at Aon Hewitt Investment Consulting, who seconded the idea that the overall growth in the defined contribution plan space has allowed stable value to continue growing as an asset class even as its market share has narrowed. Punnoose also noted that recent regulatory reforms in the money market space, which many analysts view as making money market funds a more complicated investment product, have resulted in increased interest among plan sponsors in adding stable value to their investment menu.

In 2015, Punnoose said, 40 percent of the large and midsize defined contribution retirement plans tracked by Aon Hewitt for its quarterly stable value survey had a money market fund as an investment option. That figure fell to 38 percent in 2017. During that two-year period, the percentage of plans offering a stable value option held at about 75 percent.

In plans where a stable value or money market fund was available, the percentage of plan assets allocated to them declined slightly from 2015 to 2017, Punnoose added, with some of that money apparently flowing to equity funds. Given the extended bull market in stocks, he said, that wasn't surprising.

While the popularity of stable value funds has ebbed and flowed over time, Punnoose emphasized that plan sponsors continue to view capital preservation funds as an important asset class they want to make available to their plan participants. "If you're a midcap value fund or a large-cap growth fund, you might get encapsulated by some other type of investment, i.e., a growth fund incorporating different asset classes," he said. "Whereas capital preservation seems like it's going to stay as a stand-alone investment option."

Although one stable value wrap provider—Bank of Tokyo-Mitsubishi UFJ—recently announced that it was leaving the stable value business, Punnoose said Aon sees sufficient capacity in the marketplace to absorb the bank's book of business. While average wrap fees remain in the 20-basis-point to 25-basis-point range, he said, they've fallen into the high teens in select situations.

Among the 18 collective trusts in the Aon Hewitt Investment Consulting stable value database, Punnoose said, the average duration of their portfolios at June 30 was 2.8 years, up from 2.4 a year earlier. The average market-to-book ratio was 100.3 percent, down from 101.8 percent a year earlier, while the average annualized crediting rate stood at 2.0 percent, up from 1.8 percent at the end of 2016. The average cash level in the portfolios was 4.6 percent, ranging from a low of 0.8 percent to a high of 7.4 percent. SVIA

401(k) Expert Sees Big Changes Coming to Retirement Plan Industry

By Randy Myers

Fred Barstein has spent the bulk of his professional life—more than 20 years—in the retirement plan industry. Specifically, the 401(k) industry. Today, he sees that industry on the cusp of significant change.

"The 401(k) world is basically upside down and needs to be totally changed," Barstein told attendees at the 2017 SVIA Fall Forum in October. "Everything customized needs to be one size, and everything one size has to be customized." Translation? Small employers need to stop being responsible for designing and running their own small plans and adopt a more economical one-size-fits-all approach, while large employers with greater resources continue to customize their plans to meet their specific needs.

Barstein, founder and CEO of The Retirement Advisor University, its affiliate The Plan Sponsor University, and, more recently, 401kTV, supports the idea of creating pooled employer plans, or PEPs, for small employers. PEPs would be run by a professional fiduciary and would be open to multiple unrelated employers, similar to the way mutual funds are open to multiple investors. Unlike existing multiple employer plans, or MEPs, which are open only to employers who share an affiliation, PEPs as currently envisioned would not be subject the so-called "one bad apple rule." That rule effectively states that all plans in a MEP can lose their tax-qualified status if just one plan fails to meet tax-qualified plan criteria. Applied to PEPs, the rule would likely keep many small employers from throwing their lot in with others.

Several pieces of legislation that would allow for the creation of PEPs have been introduced in Congress. While none have yet passed, Barstein said there is widespread bipartisan support for the PEP concept, which he predicted could revolutionize the 401(k) market. "We think it's not a matter of if it happens, it's a matter of when," he said. "It just makes so much sense."

Turning to the subject of stable value, Barstein called it the "second most important asset class for the retail defined contribution plan market" because many plan participants place a premium on capital preservation. But he cautioned that many investment advisors catering to the retail market are unfamiliar with stable value and hence don't recommend it. "There's an opportunity educate them, but you're really starting from zero," he told his audience.

The small plan market also has been slower than the large-plan market to embrace plan design features like automatic enrollment and automatic escalation of participant contributions, Barstein said, but those features are gradually finding their way into the marketplace. He estimated that about 40 percent of small plans have adopted them. Meanwhile, small plans are becoming highly sensitive to fees, driving them to put more index funds into their investment lineups and more seriously consider offering collective investment trusts.

Looking ahead at the retail defined contribution plan market as a whole, Barstein said he sees an industry that will have fewer investment advisors, broker-dealers, recordkeepers and defined contribution investment only providers as fee compression makes those businesses more challenging. He also foresees fewer plans but more PEPs, and greater plan sponsor engagement with their plans.

"Hopefully we'll see more participant engagement, too, but we haven't figured that out yet," he concluded, contending that efforts to educate plan participants have failed to make a significant dent in their behaviors. Partly for that reason, Barstein endorses greater adoption of the "Save More Tomorrow" plan design created by behavioral finance researchers Shlomo Benartzi and Richard Thaler. Their design centers in part on getting plan participants to commit to contributing more of their pay to their retirement plan at some point in the near future rather than immediately, because research has found them more open to that idea. SVIA

Regulatory Environment Remains in Flux Under New Administration

By Randy Myers

Speakers:

Lindsay Jackson, Partner, Morgan Lewis & Bockius, LLP

Daniel Kleinman, Partner, Morgan Lewis & Bockius, LLP

Michael Richman, Partner, Morgan Lewis & Bockius, LLP

Many business leaders anticipated a rollback of business regulations after President Donald Trump took office in January. While progress on that front has been mixed, it's become clear that the new administration has slowed or halted a number of regulatory initiatives undertaken under President Barack Obama.

Not all, of course. With many key posts in the Department of Labor still unfilled, the new administration did not block major parts of a new and controversial DOL rule that expands the definition of fiduciary "investment advice" under the Employee Retirement Income Security Act. Parts of the rule and certain exemptions to it, including the best interest contract (BIC) exemption, took effect on June 9. However, full implementation of the rule isn't scheduled until January 2018, and certain exemptions have been delayed and may be further delayed or revised, Michael Richman, partner with the law firm of Morgan Lewis & Bockius LLP, said during a panel presentation at the 2017 SVIA Fall Forum. Richman was joined at the dais by Lindsay Jackson and Daniel Kleinman, also partners at Morgan Lewis & Bockius.

Jackson and Kleinman said the June 7 effective date for the new fiduciary rule has already had a big impact on the financial services industry, leading in some instances to the wholesale rewriting of brokerage platforms. "A lot of our clients are looking at how they can rationalize, and in many cases level, compensation across these platforms," Jackson said. "And the product manufacturers are looking at how to accommodate those kinds of changes."

The new rule also has made it more important than ever for anyone in the financial services industry to know when they're acting as a fiduciary. A particular concern revolves around determining when a conversation veers from a sales pitch to the provision of investment advice. When dealing with large plans, marketers of stable value products may be able to rely on the independent fiduciary exception to the rule to stay within the law, the panelists noted. When speaking to small plans, marketers may want to avoid making a recommendation altogether or rely on several exceptions to the rule, including, for insurance and annuity contracts, the BIC exemption.

Jackson said that pursuant to direction from the White House, the DOL is looking for ways to streamline the rule to make it more lenient or flexible while still preserving consumer protections. It is possible, she added, that the January 1, 2018, applicability date of additional conditions for the BIC exemption and two others will be extended to July 1, 2019.

In other regulatory developments, Richman said, proposed revisions to the Form 5500 annual report that plans sponsors are required to file with the Department of Labor remain pending, and there hasn't been much chatter around the initiative. Meanwhile, the DOL's Employee Benefit Security Administration has withdrawn a rule that would have required plans to provide a guide to the disclosures they make about plan fees.

On the legislative front, Richman noted that, in May, Congress repealed a rule designed to make it easier for states to create their own retirement savings plans for private-sector workers by exempting those plans from ERISA. Nonetheless, he said, a number of states and cities are pushing ahead with creating the plans, with the state of Oregon furthest along in its efforts. Several states also have introduced or enacted legislation aimed at filling in gaps in fiduciary obligations under the DOL fiduciary rule, he said. SVIA

Save the date: SVIA's Spring Seminar, April 29-May 1, 2018 in Orlando, FL

Lobbyist Sees Regulatory Reform Moving in Mostly Right Direction, But Slowly

By Randy Myers

The Trump administration is moving in the right direction on financial regulatory reform, a lobbyist for the financial services industry says, although cautions that reform won't happen overnight. He also warns that a possible change to the tax-deductibility of retirement plan contributions could hurt individuals.

Anthony Cimino, senior vice president and head of government affairs for the Financial Services Roundtable, told participants at the 2017 SVIA Fall Forum in October that among the factors slowing the reform process are a fractious Congress and the Trump administration's slow pace in filling positions within regulatory agencies, which in turn has slowed their ability to get things done. He also noted that when regulators change their mind they can't just "flip a switch" to implement new rules. "They have to do their due diligence," he said. "They have to propose their new rule. They have to open that new rule to public comment. And then, ultimately, they have to rewrite the rule. This is going to take some time."

The hope that any rules will be rewritten at all stems in large part from a document issued by the U.S. Treasury in June 2017 detailing executive actions and regulatory changes the administration could make immediately. Among other things, the report suggests taking measures to reduce overlap and increase coordination between the country's financial regulators, raise the size threshold under which banks are subject to the Volcker Rule, make changes to capital and liquidity requirements in the securitization market, and reduce the cost of bank lending.

The House of Representatives has been eager to push regulatory reform, too. This past summer it passed the Choice Act, which would overturn many of the banking reforms implemented in the wake of the 2008 financial crisis. Most political observers give the bill little chance of getting through the Senate, but Cimino urged his audience to take note of two key changes outlined in the legislation. One would require that every proposed new rule be subject to a cost-benefit analysis, and the other would require that if the impact exceeded a yet-to-be-determined threshold, Congress would have to ratify the rule. Without opining on whether this would be good or bad, Cimino noted that the latter rule would inject a new level of uncertainty—and delay—into the rule-making process.

Overall, Cimino said, he expects that any regulatory relief package that might emerge from Congress in the near future will be, at most, moderate in scope.

Meanwhile, the Trump administration is also pushing for tax reform. On that front, key areas of interest to the Financial Services Roundtable, Cimino said, include the possibility of a tax repatriation measure that would give U.S. companies a tax break when bringing foreign profits back to this country, a switch to a territorial rather than a worldwide tax system, the deductibility of interest payments from corporate income, and the so-called "Rothification" of participant-directed retirement savings plans such as 401(k)s and IRAs.

Contributions to traditional retirement savings plans are tax-deductible, and some consumer and financial services industry groups, including the Financial Services Roundtable, worry that Rothification—making some or all those contributions no longer tax deductible—would reduce the amount workers save for retirement and jeopardize their retirement security. On the other hand, Rothification would, at least initially, send more tax dollars to the U.S. Treasury, which could help pay for the tax cuts Republicans are promoting. That could push some in Congress to support the measure, Cimino warned.

"You don't want to be in the industry that's standing between Republican members of the House and Senate and tax reform," Cimino said. "They have to go home to that activist base that they promised to do healthcare for, and that they promised to do tax reform for, and they don't want to go home empty-handed."

Cimino added that while he doubts Congress would pass a "full Rothification" measure, he wouldn't rule it out. "If we get to the 11th hour, it's going to be very difficult to argue against," he said. "That's why we're trying to put up as many walls around it as possible." SVIA

(Editor's note: On October 23, President Trump tweeted that there would be "no change" to 401(k) plans, although a number of Republican Congressional leaders subsequently suggested they might pursue changes anyway.)

To Standardize or Not: A Stable Value Roundtable

By Randy Myers

Speakers:

Bradie Barr, President, Transamerica Stable Value Solutions

Colin Carey, Vice President, State Street Bank & Trust Company

Shane Johnston, Senior Portfolio Manager, Morley Capital Management

Robert Madore, Vice President, T. Rowe Price Associates, Inc.

Gary Ward, Senior Vice President, Prudential Financial

Moderator: Nick Gage, Senior Director, Galliard Capital Management

Would a standard stable value contract be a better stable value contract?

For years, plan sponsors who have shied away from stable value have attributed their caution at least in part to the product's perceived complexity, including restrictions that relate to employer-initiated events and participant trading in competing funds. During a panel discussion at the SVIA's 2017 Fall Forum in Washington, D.C., stable value managers and wrap issuers debated whether standardizing contract terms across the industry would make sense.

The general consensus was that it would not, although the panelists were open to the idea of trying to simplify their product's structure to make it easier for plan sponsors and their consultants to embrace it. Nick Gage, head of stable value separate account strategy at Galliard Capital Management, said the industry might be able to coalesce, for example, around a more universal definition of competing funds.

"We can definitely look to simplification, but it's going to be really important to find the right balance so that the tradeoffs we make allow us to still have a vibrant market, and perhaps invite others into the market so we can take advantage of our growth opportunities," added Gary Ward, head of stable value at Prudential Financial.

Shane Johnston, senior portfolio manager at Morley Financial Services, noted that while consistency across the industry might be helpful for some plan sponsors, it could impinge on the ability of stable value managers to tailor their product to the specific needs of other sponsors.

Bradie Barr, president of Transamerica Stable Value Solutions, expressed similar concerns. She conceded, for example, that while the industry does have some consistency in defining what counts as an employer-initiated event, issuer responses to such events vary quite a bit and perhaps could be more consistent. But, she added, in her experience, stable value managers often view their ability to negotiate the details of how wrap issuers handle employer-initiated events as a differentiator between themselves and their competitors.

"There are a lot of other contractual terms, such as investment guidelines, that we need to be careful in addressing so that we do not overly standardize or commoditize our market," Ward added. "That's when barriers to entry go up (for potential new wrap issuers), and the attractiveness of exiting the market also goes up. We need to be careful, as we look at our industry's great growth opportunities, to allow managers and wrap providers to differentiate themselves while still meeting the needs of the market for more simplicity."

Barr suggested that ultimately the stable value market might divide itself into three tiers, with lower-cost, plain-vanilla wrap contracts covering simple, lower-risk products at one end, higher-cost and highly customized contracts covering stable value funds with riskier characteristics at the other end, and a middle market between the two extremes. "Those wrap providers that can tolerate a certain level of risk, or apply resources to the complexity of certain products, will command a higher fee than somebody looking at a very standardized language and terms," she said.

The panelists agreed that the stable value market has ample wrap capacity right now, despite the recent decision by Bank of Tokyo-Mitsubishi UFJ to exit the market.

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To Standardize or Not: A Stable Value Roundtable

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Robert Madore, portfolio manager at T. Rowe Price, noted that his firm's stable value funds had about $1 billion in assets wrapped by Bank of Tokyo-Mitsubishi, and was able to replace that capacity within two weeks.

While generally applauding the ample availability of wrap capacity today, the panelists expressed some reservations about stable value managers taking advantage of it to spread their business among many more wrap issuers than they might have in the past. While that sort of diversification may help to mitigate risk, they said that taken to the extreme it could make it difficult for individual issuers to meet their return hurdles and so maintain their commitment to the business. The panelists sounded the same caution on pushing managers too aggressively for fee reductions, even as they acknowledged that the entire investment industry is under fee pressure.

"We're fiduciaries and have to do what we have to do for our clients," Madore said. "At the same time, we have to be careful, as managers, that we don't push too hard. If we push too hard, we lose wrappers and we end up with a product that doesn't work."

To that point, Barr added that wrap issuers today are doing much more granular analysis of the stable value investment portfolios they're wrapping to better understand their risks—something that benefits the entire industry. But, she said, "that takes resources. It's not just the investment risks we need to be compensated for, but also the operational resources it takes to be able to support and mitigate the investment risks we're taking." SVIA

Cybersecurity Expert Offers Tips for Safeguarding Data

By Randy Myers

A seemingly unending string of high-profile data breaches over the past few years has only reinforced the notion that "cybersecurity" is an oxymoron. But Barbara Marchiori de Assis, a cybersecurity program officer with the Organization of American States, insists there are many steps people and organizations can take to safeguard their personal and business data.

Among the trends contributing to a more dangerous cyber environment, Marchiori said during a presentation at the SVIA's 2017 Fall Forum in Washington, D.C, are more frequent attacks aimed at smartphones and other mobile devices, and the growing "Internet of Things" movement, in which everything from farm equipment to kitchen refrigerators is connected to the Internet.

The Organization of American States surveyed infrastructure operators in 2015 about their experiences with cyber threats. The respondents included energy, manufacturing, security and communications companies; finance and banking organizations; and governments. Of that group, 53 percent said they had experienced an increase in cyber incidents involving their computer systems in the last year, and 76 percent said incidents aimed at infrastructure were becoming more sophisticated. The most popular types of cyberattacks used against them were, in order, phishing (cited by 71 percent of respondents), attacks via unpatched vulnerabilities (50 percent), and distributed denial of service attacks (42 percent).

To help combat mobile attacks, Marchiori recommended that people configure their mobile devices to be more secure by disabling Bluetooth and Wi-Fi interfaces when they're not in use, avoiding joining unknown Wi-Fi networks or using public Wi-Fi hotspots, keeping camera lenses on smartphones and tablets covered when not in use, and choosing mobile apps wisely, generally sticking to those from well-known companies or organizations.

At the enterprise level, Marchiori encouraged organizations to know where their data is being stored when they work with a cloud computing vendor; keep operating systems, computer programs and apps up-to-date; implement multi-factor identification procedures; monitor the use of privileged accounts; and proactively develop incident response plans.

"At the end of the day, if you don't adopt security measures, you're letting something happen to you," she concluded. SVIA