SVIA

STABLE TIMES

The publication of the Stable Value Investment Association | Volume 23, Issue 1 • First Half 2019

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Stable Value: The Consultants' View

By Randy Myers

For years, stable value providers have known their success depends on winning the confidence not just of retirement plan sponsors and participants but also plan consultants. In April, the stable value industry took advantage of the 2019 SVIA Spring Seminar to find out how consultants are thinking about stable value products and what they're hearing from their plan sponsor clients.

The conversation took the form of a panel discussion led by moderator Cindy Cristello, director, contract and product development, in the Stable Value Investments group at New York Life.

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The Shift: Fed Makes U-Turn on Monetary Policy

By Randy Myers

For the Federal Reserve, it's all about inflation right now.

After raising the federal funds rate nine times since December 2015, the Fed's summary of economic projections now implies no rates hikes in 2019, down from previous expectations for two, and just one in 2020. In addition, Fed Chairman Jerome Powell has suggested the Fed will slow the shrinking or "unwinding" of its balance sheet, which grew dramatically in the years following the Great Recession, keeping it slightly above \$3.5 trillion, or about \$1 trillion higher than previously expected.

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On Deck: What the 116th Congress Is Doing About Retirement

By Randy Myers

Passing retirement legislation proved difficult in the 115th Congress, in which Republicans controlled both chambers of Congress. Could things proceed more smoothly in the 116th, now that Democrats have regained control of the House while Republicans remain in charge of the Senate? Actually, they may, says Angela Montez, senior vice president, general counsel and chief legal officer for ICMA-RC, an organization that seeks to help public sector employees build retirement security.

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Stable Value: The Consultants' View

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Speakers:

James King, King Stable Value Retirement Consulting

Kevin Machiz, VP & Consultant, Capital Markets Research Group, Callan

Preet Prashar, Associate Director, Investment Management Research - DC Strategies, Pavilion Advisory Group

Jacob Punnoose, Partner, Aon Hewitt

Moderator: Cindy Cristello, Director, New York Life

Her panelists included consultants Jacob Punnoose, a partner at Aon Hewitt Investment Consulting; James King, president of King Stable Value and Retirement Consulting; Preet Prashar, associate director at Mercer's Pavilion Advisory Group; and Kevin Machiz, vice president and consultant in the Capital Markets Research Group at Callan LLC.

The discussion covered a wide range of topics, including why plan sponsors choose to offer stable value funds to their plan participants and why some don't, what key factors go into those decisions, and how sponsors choose from the different types of stable value solutions available. The panelists also discussed what the stable value industry could do to better engage the consultant community.

Decision #1: Money market fund or stable value fund?

The consultants broadly agreed that plan sponsors who offer a stable value fund to their participants as a principal-preservation option, as opposed to offering a money market fund, do so largely because of the risk-reward tradeoff. While the risk (volatility) of a stable value fund is comparable to that of a money market fund, the long-term returns delivered by stable value historically have been higher—typically 125 to 200 basis points higher, depending upon the time frame studied.

King noted that money market funds typically outperform stable value funds only when the yield curve is inverted—a development that new research from the SVIA shows happened 10 times over the past 65 years, for an average duration of about five and a half months. The yield curve has inverted just three times over the past 30 years, King noted. The first was for one month in July 1989, when money market funds outperformed stable value by three basis points. The second was during the six months from August 2000 to January 2001, when money market funds nonetheless underperformed stable value by seven basis points. The most recent was from August 2006 to May 2007, when money market funds outperformed stable value by 20 basis points. "So, we're talking about very limited instances of time where money market funds may outperform," King said, "while over the long-term stable value will outperform money market funds by a sizeable amount—enough so that the fiduciary of a plan should be able to make that decision (to go with stable value) relatively easily."

Choosing a stable value fund: Key factors considered

King and Machiz noted that they and their plan sponsor clients consider a wide range of factors, including contract provisions and investment guidelines, when choosing which stable value fund to offer investors. Machiz noted that fees are a top concern for many sponsors, although he'd prefer they focus first on understanding the risks involved and the potential returns they're trying to achieve.

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Save the date: SVIA's Fall Forum, October 14-16, 2019 in Washington, DC

Stable Value: The Consultants' View

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When a client is choosing a pooled fund, Prashar added, he likes to assess how fast assets in the fund have been growing, with an eye toward whether the fund will be able to continue to access sufficient wrap capacity. He also monitors the percentage of the fund's assets held by older plan participants, who could be expected to withdraw their money at some point in the not-too-distant future.

King said that among other things he likes to pay attention to the investment guidelines imposed by a pooled fund's wrap providers, and the degree to which investment managers are pushing back against those guidelines. Many plan sponsors, he added, also pay attention to contract terms around exiting a fund, including any market-value adjustments the fund may impose.

Separate accounts versus pooled funds

The consultants generally agreed that separate account stable value funds may offer slightly lower fees, slightly higher yields and broader investment guidelines than pooled funds. Pooled funds may be easier to exit, however, during periods when a fund's market value falls below its book value, since most pooled funds allow a plan to exit the fund within 12 months regardless of market conditions. With a separate account, the exit could theoretically stretch out over years. Nonetheless, the consultants pointed out that the decision to use a separate account or pooled fund often is predetermined by the amount of money the plan will be allocating to stable value, with smaller amounts typically slotting into pooled funds and larger amounts into separate accounts. Once a plan's stable value assets reach the $100 million to $200 million range, Prashar said, stable value managers will often prefer a separate account.

Industry trends

Punnoose noted that while stable value assets as a percentage of total retirement plan assets has been trending lower, plan assets overall have been growing, so that plan participants still have a sizeable amount invested in stable value. (It was about $835 billion in the fourth quarter of 2018, according to the SVIA's Stable Value Quarterly Characteristics Survey.) He also said plan sponsors are becoming somewhat less amenable to some of the complexities associated with stable value funds, such as the restrictions they place on transfers between stable value funds and competing funds. He encouraged stable value providers to make their products "as straightforward as possible for plan sponsors to implement" without causing undue pain for themselves.

Catering to plan consultants

Given the prominent role plan consultants play in helping plan sponsors design and manage defined contribution retirement saving plans, the stable value industry is understandably eager for consultants to understand how stable value products work, and what they can deliver for plan sponsors and participants. Punnoose urged the industry to make a more concerted effort to attract consultants to SVIA conferences.

"No consultant is going to put an asset class in front of their client that they don't understand," Punnoose said, observing that relatively few consultants currently attend SVIA forums and seminars. "I see this conference, which I've attended often, as frankly a missed opportunity. There should be more of our peers at these sessions." This sentiment was echoed by members of the audience, one of whom offered the idea of creating some sort of stable value certification for consultants, which Prashar endorsed. "As opposed to just coming to a conference here and there," he said, "I think it would get more consultants to engage" with the asset class.

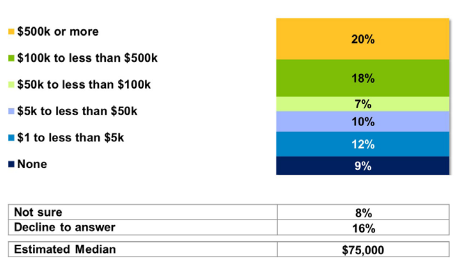
A Precarious Existence: Transamerica Study Finds Retirees' Financial Health at Risk

By Randy Myers

On the surface, life after work would seem to be pretty good in the U.S. right now. In a new survey of more than 2,000 retirees by the Transamerica Center for Retirement Studies, 86% of the respondents said they are enjoying life. Six in 10 are spending time with family and friends, approximately four in 10 are traveling and engaged in hobbies, and one in every five are doing volunteer work. Their median age is 71.

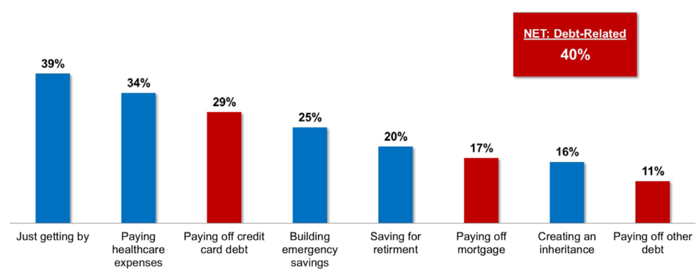
Along with those sunny results, however, the survey documented others that are more disturbing. Most of the survey respondents are living on limited annual household income, for example—a median of $32,000—and nearly half have less than $100,000 in savings. Twenty-eight percent of the survey respondents carry mortgage debt—the median amount among those who do is $52,000—and approximately 27% carry other types of debt.

Household Savings Is Low (Excluding Home Equity)



Seventy-three percent of the survey respondents say they wish they had saved more on a consistent basis before retiring, and only 18% are "very" confident they will be able to maintain a comfortable lifestyle throughout retirement. Their most common financial priority is "just getting by," cited by nearly four in 10 survey respondents. That's followed by paying health care expenses (34%) and paying off credit card debt (29%). Two in three survey respondents say Social Security will be their primary source of income over the course of their retirement, yet only 4% waited until age 70 to start collecting Social Security benefits, which yields the largest possible monthly payout.

Current Financial Priorities



"There are some big things that are going well, but there are also some big red lights flashing," says Catherine Collinson, CEO and president of the Transamerica Institute and executive director of the Aegon Center for Longevity and Retirement. In reviewing the survey findings at the SVIA's 2019 Spring Seminar in April, Collinson said "many retirees are living on the fringe. They may be doing well now, but in all likelihood they will not be able to withstand a major financial shock," such as the need for long-term care, or even, perhaps, periods of high inflation.

Collinson noted that at a median age of 71, many retirees in the survey could live another 10 to 20 years or more, and observed that the median savings amount of $75,000 is unlikely to go very far under that scenario.

While it's not uncommon for people to plan to work a few extra years to save more for retirement or to postpone tapping their savings, Collinson noted that more than half the survey respondents—56%—had retired sooner than planned. Their reasons were varied, but more than half the group cited one or more employment-related reasons, such as losing their job due to organizational changes, becoming unhappy in their work, or receiving an incentive or buyout package. Health and family issues were the next most common reason, cited by 47% of respondents, including 28% whose own ill health was the issue.

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A Precarious Existence: Transamerica Study Finds Retirees' Financial Health at Risk

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After more than two decades working in the retirement industry, Collinson said one of the most striking survey findings for her was that employers, who have invested so much in helping their employees save for retirement, often have done nothing to help them transition into retirement. Two out of every three survey respondents said that when it came time for them to leave the workforce their employers did nothing to help them. The most common benefit provided was an offering of financial counseling, cited by 6% of the respondents, followed by seminars and education about transitioning into retirement, cited by 5%.

With baby boomers now starting to leave the workforce en masse, Collinson said she also was surprised that few employers are taking opportunities to preserve their institutional knowledge by providing them with alternatives to full retirement—accommodating flexible work schedules, say, or allowing employees to take positions that are less stressful or demanding.

While expanding retirement plan coverage has been a major policy initiative in the time she's been working in the industry, Collinson said, 32% of the survey respondents said they retired with no employer-sponsored retirement benefits, indicating that much work remains to be done on that front.

Collinson allowed that there is some good work being done right now in Washington to improve retirement security, particularly in the form of legislative proposals that would make it easier for small employers to offer retirement plans. But she said more will need to be done, and argued that the retirement industry, including the stable value industry, needs to "keep this issue front and center as an area of focus."

Collinson also said individuals need to be more conscientious about engaging in financial planning, including planning for their health care needs. SVIA

Retirement Challenges: The View from a Congressional District Office

By Randy Myers

It is an unfortunate fact that the people most at risk of financial insecurity in retirement are often those who are financially insecure before retirement—people working in low-wage jobs, or unable to work, and struggling to meet day-to-day expenses. For them, the notion of planning for a secure retirement can seem as distant and unrealistic as planning for an overseas vacation or buying a vacation home.

Just ask Blanca Varela, district director for U.S. Rep. Tom O'Halleran, D-Arizona. Varela spends the bulk of her working hours helping constituents, many of them veterans or Native Americans, or both. Nearly every day, she says, veterans pass through O'Halleran's office looking for help with homelessness, post-traumatic stress disorder and access to medical care through the Veterans Health Administration. Problems involving Social Security benefits also are common. "Just living from paycheck to paycheck is something we talk with constituents about on an everyday basis," Varela said during a presentation at the 2019 SVIA Spring Seminar in Tucson. "Retirement is not at the front of these families' list of issues."

Varela spoke on behalf of O'Halleran, who was originally scheduled to talk at the Spring Seminar but was unable to do so due to conflicting responsibilities. In a prepared statement read by Varela, O'Halleran said his office prioritizes "policies that promote quality health care, education, 21st century technology and infrastructure, as well as solid investments in small rural economies."

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Retirement Challenges: The View from a Congressional District Office

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According to Varela, O'Halleran also is focused on coming up with a bipartisan solution to making Social Security a sustainable benefit. Social Security's trust funds are on track to be depleted by 2034, at which point the program will be able to pay out only about 77% of the retirement benefits to which workers are entitled, and only about 96% of disability benefits.

Unfortunately, Varela said, lawmakers often seem to respond to problems only after they reach crisis stage. "Tom is saying, 'Listen, we know this is a problem. We need to really work together in a bipartisan way to address the problem."

Cautioning that not enough people are talking about how a break in the Social Security safety net would affect families—especially those who rely on it as their primary source of income—Varela said the country must come up with a way not only to mend the program but also to convince Americans struggling with their finances to set aside at least some additional money for retirement.

"How is it that you can impact those families?" she asked. "How, in the midst of them living in crisis and paycheck-to-paycheck, can we say that a few dollars set aside from every paycheck in a retirement account will go a long way when you retire? That's a difficult conversation to have because people are living in the moment, they are living in crisis." Looking specifically to veterans, Varela added, "There has to be some kind of strategy to engage people who have served the country. I wouldn't begin to suggest how you can do that, but I think there has to be some way for veterans to have better financial planning for their future."

Assuring access to health care is equally important, Varela added, noting that she has seen people from the Navajo Nation in Arizona travel three hours to New Mexico for a doctor's appointment—a situation exacerbated by a lack of adequate housing and roads.

"Retirement and health care are both critical to the future of this generation and the generations to come, and we need to address them," Varela concluded. "We need to get people thinking about saving but also about making smart health decisions." She encouraged her audience to get in touch with O'Halleran's office with any ideas they might have for distributing that message more widely. SVIA

The Crumbling Social Contract: Retirement Readiness a Global Issue

By Randy Myers

Many Americans worry that they are ill-prepared for a financially secure retirement. Catherine Collinson, CEO and president of the Transamerica Institute and executive director of the Aegon Center for Longevity and Retirement, says they aren't alone.

Speaking at the SVIA's 2019 Spring Seminar in Tucson, Arizona, Collinson said longer lifespans, lower birth rates and aging populations are straining retirement systems around the world, jeopardizing social safety nets. Amid this "crumbling social contract," she said, only 25% of workers globally feel they're on track to achieve their estimated retirement income needs.

That's one of the key findings from the latest Aegon Retirement Readiness Index survey, which measures how well workers in 15 countries are prepared for retirement on six dimensions. The index itself scales from 1 to 10, with any score below six considered low and any score of eight or above considered high. On average the 15 countries scored 5.9, with Japan ranking lowest at 4.7. The U.S. came in fourth highest at 6.5, topped only by India (7.3), China (6.7) and Brazil (6.6).

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The Crumbling Social Contract: Retirement Readiness a Global Issue

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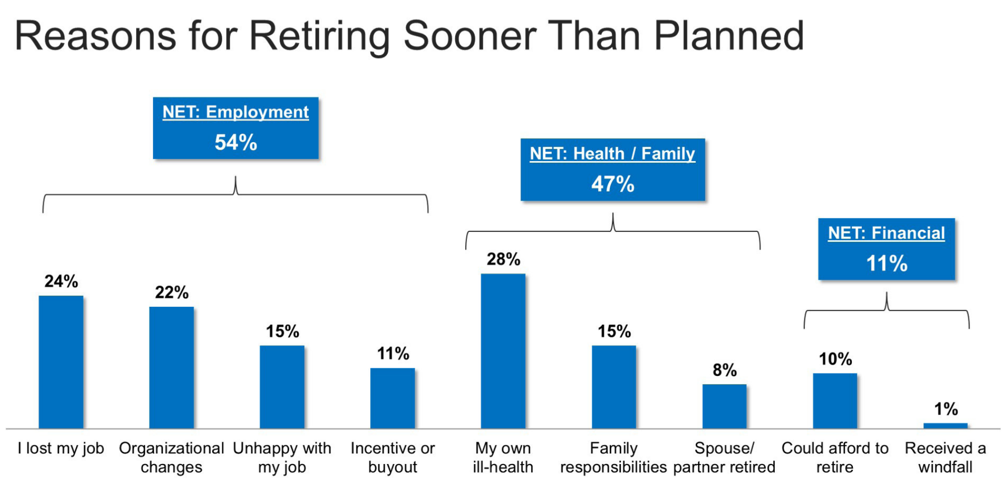
Collinson theorizes that results for the three top-scoring countries may have been skewed because the survey was conducted online, and workers in many rural regions of those countries don't have internet access. Respondents who are online, she said, "are more likely to be engaged in the developing economies in those countries, and their optimism is pervasive throughout all of the survey findings." Still, she said, the survey indicates there's much room for improvement.

Collinson said Transamerica and its parent company, Aegon, are hoping employers, policymakers and other retirement industry participants will join with them in creating a new social contract that honors the principles of sustainability and solidarity and provides safety nets for people to age with dignity. Such a contract, she said, would have to be adaptable for changing times and ideally contain these nine essential design features: sustainable Social Security benefits; universal access to retirement savings arrangements; automatic savings and other applications of behavioral economics; guaranteed lifetime income solutions; financial education and literacy; lifelong learning, longer working lives and flexible retirement; accessible and affordable healthcare; a positive view of aging; and an age-friendly world. Under that scenario, Collinson said, working and retirement would no longer be mutually exclusive, aging would be viewed as something positive and valuable, and people of all ages could grow, thrive and share in a positive life. SVIA



The Shift: Fed Makes U-Turn on Monetary Policy

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Kenneth Sommer, managing director and head of investment grade portfolio management for NYL Investors, part of New York Life Insurance Co., attributes the Fed's more accommodative monetary stance not to concerns about the health of the U.S. economy but rather to trends in inflation. Like nearly every other central bank around the globe, Sommer said at the 2019 SVIA Spring Seminar, the Fed has failed to consistently reach its inflation target over the past several years, and it realizes it can't continue to raise interest rates in that environment. It's capitulated to that reality, and inflation is going to continue to dictate Fed policy over the near term.

"If the Fed is going to potentially raise rates at some point in the future, it's going to be because inflation is running substantially above its symmetric 2% target for a sustained period of time," Sommer said. "Conversely, if there's likely to be a Fed rate cut, it's because their inflation target is not being met and certainly is substantially below their 2% symmetric target."

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The Shift: Fed Makes U-Turn on Monetary Policy

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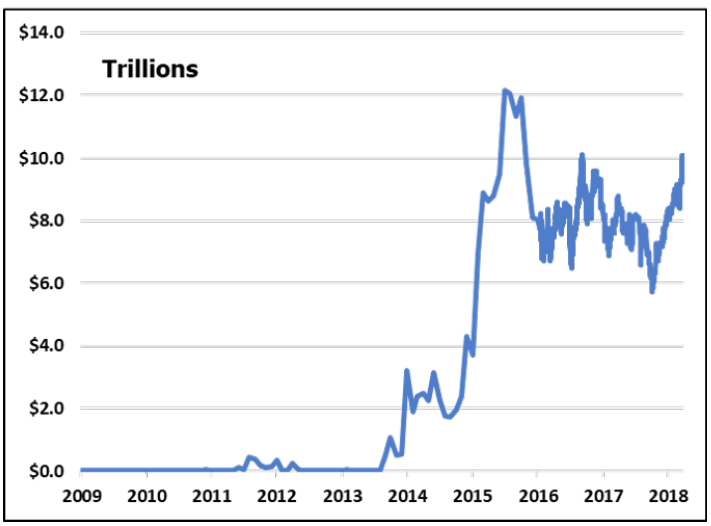
The Fed's more dovish approach to monetary policy brings it more in line with central banks in Europe and Japan, whose economies have been lagging the U.S. economy.

Easy money policies around the world have had some unusual consequences, Sommer noted, like the debut of sovereign bonds, including German bonds, that trade with yields below 0%. The total amount of negative-yielding debt peaked in 2015 at just above $12 trillion, but remains at about $10 trillion today. Sommer said the Fed's policy shift suggests that negative-yields will be with us for some time yet. He said some buyers of those bonds must believe rates could fall even further, which would increase the value of their holdings.

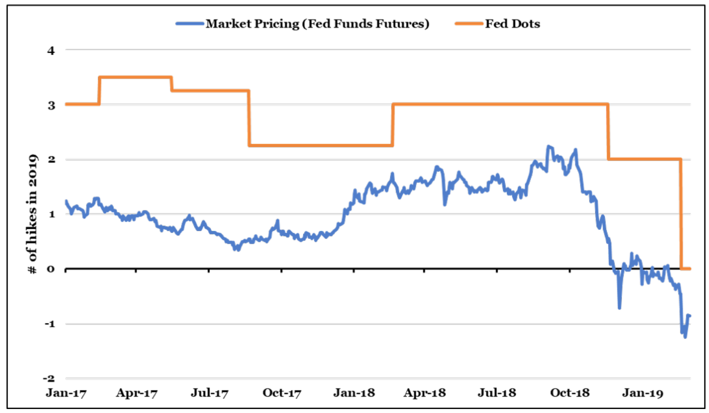
Global Aggregate Negative Yielding Debt



The U.S. economy itself remains healthy, Sommer said, as evidenced by the country's strong employment levels, which have pushed up household net worth and are starting to drive wage inflation. The ISM Non-Manufacturing Index also remains well above 50, Sommer said, which is indicative of economic expansion.

Although the current expansion is on track to become the longest in the nation's history this year, Sommer said he and his colleagues believe it to be sustainable, in part because of the Fed's efforts to foster a climate fertile for steady

Fed Rate Hikes



growth rather than boom-and-bust cycles. "We are of the opinion that this (expansion) is likely to continue into 2020, in that 2% to 2.5% type of growth range we've seen," he said.

To be sure, he said, there are a number of recession indicators that suggest the U.S. may be closer to a recession today than it was as recently as December, but he said he doesn't expect a recession in the next 12 months and potentially not in the next 18 months.

In terms of what all this means for stable value portfolios, Sommer said that given the flatness of the yield curve right now his firm has positioned its portfolios to take advantage of the increased yields available at the front end of the curve. "We don't believe it's necessary to go out and get incremental yield by extending duration," he said. The firm's preferred asset classes in early April included asset-backed securities, particularly short-duration Triple A tranches; commercial mortgage-backed securities, where stable fundamentals and strong technical backdrops made for an attractive alternative to Single A industrials; and credit, where it continued to find attractive opportunities in the front-to-intermediate part of the curve.

Still, Sommer said his firm had reduced its credit exposure during the first quarter after investment-grade credit notched gains that eclipsed the losses registered in all of 2018. "We've come a fair amount in just a short amount of time, so we're waiting for more data, we're waiting for earnings," he said. "We want to see where the next catalyst is." SVIA

On Deck: What the 116th Congress Is Doing About Retirement

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Speaking at the 2019 SVIA Spring Seminar in early April, Montez noted that the midterm election moved a longtime retirement champion, U.S. Rep. Richard Neal, D-Massachusetts, into the chairmanship of the House Ways and Means Committee. Neal has made clear that advancing retirement legislation is his top priority. "He really delivered on that promise last week when the SECURE Act was voted out of his committee, but I don't think he's done yet," Montez told her SVIA audience. "There are a number of retirement proposals that he has waiting in the wings from the last Congress, so we're hopeful there will be a lot of movement there."

SECURE is an acronym for Setting Every Community Up for Retirement Enhancement. Among other things, the bill would allow unrelated small employers to join together to offer so called "open" multiple-employer retirement plans (MEPs). It also would increase the age at which people must begin to take mandatory withdrawals from retirement accounts to 72 from 70½, and require an annual disclosure on the statements of retirement plan participants indicating what their account balances might translate to if used to create a stream of retirement income.

Montez said Neal appears to have a "willing dance partner" on retirement issues in the Ways and Means Committee's ranking member, U.S. Rep. Kevin Brady, R-Texas. Brady tried unsuccessfully in the last Congress to pass the Family Savings Act, which included a number of popular retirement reforms.

Meanwhile, in the Senate, Montez said she expects two longtime bipartisan champions of retirement security, Sen. Rob Portman, R-Ohio, and Sen. Ben Cardin, D-Maryland, to continue their efforts in 2019. In the 115th Congress, they introduced legislation known as the Retirement Security and Savings Act. Among other things, the Portman-Cardin bill would expand retirement plan coverage, reform defined benefit plans, and revise some of the rules around retirement plans to harmonize with IRA rules.

Although the House Ways and Means Committee has 11 new Democratic members and three new Republicans, all of whom may have to negotiate a learning curve, Montez said the committee got off to a strong start in February with its first hearing. It focused on improving retirement security for Americans and looked at a broad range of issues, including MEPs, shoring up Social Security, expanding access to workplace retirement plans, improving those plans, and examining state efforts to provide greater retirement plan coverage for workers in the private sector.

"Witnesses and members on both sides of the aisle expressed their strong support for RESA (the Retirement Enhancement and Savings Act) and MEPs," Montez said. "Chairman Neal also used the hearing as an opportunity to highlight some of his retirement proposals, including the Automatic Retirement Plan Act, which would require all but the smallest of employers to offer a retirement plan, and the Retirement Plan Simplification Act, which would help streamline and facilitate the adoption and administration of plans. That bill shares a number of provisions with Portman-Cardin."

On the same day as that hearing, Montez noted, the Senate Special Committee on Aging held hearings aimed at addressing the challenges older Americans face as they prepare for retirement.

Montez said there are approximately half a dozen reform packages under consideration that could form the basis of any retirement legislation that moves through the 116th Congress, starting with RESA, which was first introduced in 2016 during the 114th Congress and has strong bipartisan and bicameral support. "There's also the Family Savings Act, which was the House Republicans' retirement reform effort and shared a number of provisions with RESA and also Portman-Cardin, the latter of which moved really quickly from a discussion draft in September or October to being introduced in December with fairly

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On Deck: What the 116th Congress Is Doing About Retirement

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little controversy," she said. "And then there are those other two pieces of legislation that I mentioned from Chairman Neal, which we think, along with some Portman-Cardin provisions, are likely to form the basis of a RESA 2.0 package." She said her organization is optimistic that a compromise bill between the two branches of Congress could be forthcoming as early as this May.

Among the expected updates to a revised RESA bill, Montez said, would be language allowing 403(b) retirement savings plans, which are similar to 401(k) plans but are used primarily by schools and other tax-exempt organizations, to offer collective investment trusts (CITs) as investment options for plan participants, rather than just annuities or mutual funds. She said some experts estimate making CITs available in 403(b) plans could save plan participants as much as $10 billion annually and provide access to a broader range of investment options, including pooled stable value funds.

Montez observed that after three years of relative inactivity a number of states are starting to move on legislation that would create state-run retirement plans for private sector workers within their borders. In March, New Jersey became the sixth state to sign such a program into law.

There are some potential hurdles to the success of these plans, but they are starting to attract some participants. "The farthest along right now is Oregon with its Oregon Saves Program," Montez said. "To date, they've been able to garner about a thousand employers who have started to make payroll deductions into the plan and have (collected) about $13 million in assets. They're rolling it out like a lot of other programs in tranches based on employer size."

Montez said the state plans could be viewed as an opportunity for the stable value industry to expand its reach—as could the introduction of open MEPs and continued growth in Health Savings Accounts, which are tax-advantaged savings and investment vehicles available to participants in high-deductible health care plans. SVIA

Moving from Retirement Accumulation to Distribution: Annuities and Stable Value

By Randy Myers

In the nearly four decades since the creation of the first 401(k) plan, the retirement industry has done an admirable job developing additional tools, products and services to help Americans accumulate retirement assets. It's only recently, though, that the industry has begun to turn its attention to helping Americans convert their accumulated savings into retirement income. The winners of that contest, suggests Kelli Hueler, founder and CEO of Hueler Companies, will be those organizations—including stable value providers—that learn to engage directly with retirees.

"Stable value is a very important portion of the retirement plan for most of the folks we talk to," Hueler said in a presentation at the 2019 SVIA Spring Seminar. "If it's in their plan, it's a very important piece of their overall portfolio.

But until stable value starts being messaged out the way lifetime income is beginning to be messaged to the individual—touching the individual, educating them more about what it can do for their household, for their ongoing investment needs—that's going to be a real limitation for the stable value industry. It's also a really great growth opportunity, but it's only going to happen for those organizations that are willing to message out directly to the participant."

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Save the date: SVIA's Fall Forum, October 14-16, 2019 in Washington, DC

Moving from Retirement Accumulation to Distribution: Annuities and Stable Value

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Hueler Companies has already embarked on the path to personalized contact with individuals. After more than a decade working solely in the stable value business, first as a consultant and later as developer of online systems for bidding and contract procurement, the company launched a companion business in the early 2000s called Income Solutions, whose automated platform allows individuals to research and purchase qualified longevity annuity contracts.

Hueler said that when organizations reach out to individuals, their message needs to be clear and they need to deliver concrete solutions. She noted, for example, that some innovative asset managers are starting to think about how retirement income solutions might be incorporated into target-date funds, which have become wildly popular in defined contribution retirement plans but generally don't provide any sort of income guarantees.

"If they (asset managers) want to grow that part of their business, they can't keep talking about income with no actual bottom-line solution," Hueler argued. "They can't keep saying, 'Well, there's a 90% chance you'll be good to age 90, you should feel great.' Have you ever looked a person in the face and said, 'You're 10% likely to fail?' Trust me, their reaction is not good. The need for guaranteed income, the need for stability in the investment portfolio, will only get greater as this generation continues to age."

Hueler envisions a time when retirees will be able to consult a menu of retirement income options where they can learn about and choose one that's right for them. "Hopefully it should include stable value, and it should include lifetime income," Hueler said. "It also should include the opportunity for them to see what those solutions look like combined with the rest of their portfolio. We think the retirement income menu is an idea whose time has come."

Hueler warned that retirement industry organizations that don't participate in providing these types of solutions, and in giving flexibility to retirees in choosing the products that make the most sense for them, will be bypassed by those who do. "Technology is going to allow for movement around anything that's a pillar, that's inflexible," she said.

UPCOMING EVENTS

ANNUAL FALL FORUM

OCTOBER 14-16, 2019 (MONDAY – WEDNESDAY)
THE FAIRMONT HOTEL
2401 M STREET, NW
WASHINGTON, DC
RATE $324

FIFTEENTH SPRING SEMINAR

MARCH 29-31, 2020 (SUNDAY – TUESDAY)
RITZ CARLTON RANCHO MIRAGE
68900 FRANK SINATRA DRIVE
RANCHO MIRAGE, CA
RATE $349

BOARD OF DIRECTORS MEETING

JANUARY 6-7, 2020 (MONDAY – TUESDAY)
THE FAIRMONT HOTEL
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Stable Value and Rising Interest Rates

By SVIA

Stable value practitioners are frequently asked how the stable value asset class will respond in a rising interest rate environment. Consultants, plan sponsors and individual investors have expressed concern that stable value products could be disadvantaged should interest rates continue to rise. To help address their concerns in a new white paper, we took a look at how stable value funds have performed during prior periods of rising interest rates and the characteristics that make stable value unique.

What we found is that whether or not we see short-term interest rates exceed the crediting rate on stable value funds during this cycle, focusing solely on returns over the short term ignores what stable value delivers to plan participants over the longer term, which is principal preservation, the ability to earn returns consistent with short to intermediate-term bond funds without the volatility, and the diversification benefits. This value proposition remains attractive for retirement savers whether stable value is used as a significant allocation for a participant in or nearing retirement or as a diversifying allocation in a portfolio of riskier assets.

For more than 30 years, stable value funds have delivered that value proposition by protecting participants' investments and providing steady and consistent returns that have typically exceeded those of money market funds and outpaced inflation. Further, stable value funds continue to exhibit strong fundamentals and remain well positioned to respond to the potential challenges ahead. Rising interest rates, yield curve inversions, and other market dislocations will continue to come and go in the years ahead, but the fundamental proposition of the stable value asset class will not change. SVIA

PLEASE CLICK HERE TO READ SVIA'S WHITE PAPER: STABLE VALUE AND RISING INTEREST RATES

OR GO TO: STABLEVALUE.ORG/NEWS/ARTICLE/STABLE-VALUE-AND-RISING-INTEREST-RATES-2019

Stable Value Exit Provisions

By SVIA

SVIA has released a white paper on Stable Value Exit Provisions, which may apply to plan-sponsor initiated events. While exit provisions may apply to plan-sponsor initiated events, they do not apply to plan participant-initiated or individual-initiated withdrawals in stable value products. Stable Value Exit Provisions defines exit provisions, why they exist in stable value products, as well as how exit provisions may apply based on the type of stable value product used. SVIA

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