Stable Value Investment Association

Stable Value Glossary

07/15/2013

The information contained in this Glossary of Stable Value Terms is not, and is not meant to be, exhaustive, is provided for informational purposes only, and does not constitute tax, legal or investment advice. Due to variations in stable value investment contracts and differences in stable value product offerings, not all defined terms will apply to all plans or stable value products. Additionally, this glossary seeks to define terms from a general perspective; however, stable value service providers, plan sponsors, trustees, and consultants may use such terms differently than how they may be defined herein or may use different terms to identify similar concepts. For detailed information regarding your specific stable value investment option, please contact your plan sponsor or plan administrator.

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A

AICPA – See American Institute of Certified Public Accountants.

American Institute of Certified Public Accountants (AICPA) – The AICPA is the accounting profession's largest member association, representing many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, nonprofit organizations and federal, state, and local governments. The AICPA issued Statement of Position (SOP) 94-4-1. (See also FASB Statement of Position (FSP) AAG INV-1 and book value accounting.)

Amortization – With respect to a bond, a payment schedule which will gradually discharge a debt in equal installments consisting of principal and interest. With respect to separate account GICs or synthetic GICs, the process of recognizing realized and unrealized market value gains and losses into the book value over a specified period of time via the crediting rate.

Arbitrage – In general usage, a relatively low-risk purchase and simultaneous sale of an asset in order to profit from a difference in the price. With respect to stable value investment options, exploiting short-term differences between a plan investment option with similar objectives or characteristics (the competing option) as the stable value investment option whereby assets flow to the competing option to take advantage of higher interest rates.

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Bank Investment Contract (BIC) – An investment contract issued by a bank. Unlike GICs, BICs generally do not include annuity provisions.

Bank Collective Trusts – See commingled fund.

Bank Pooled Fund – See commingled fund.

Benchmark – See index.

Benefit Payment – Any payments resulting from a participant's retirement, death, disability or termination of employment, and any payments resulting from a participant's election to withdraw, borrow, or transfer an amount from such participant's account in accordance with the terms of a plan under which a participant is an eligible member.

Benefit-Responsive – The ability to transact at book or contract value for benefit payments.

BIC – See bank investment contract.

Blended Rate – The aggregate yield on the investments in a stable value investment option. (See also crediting rate.)

Book Value (also known as "contract value") – For a stable value investment contract, the value of initial deposited principal, plus accumulated interest, plus additional deposits, minus withdrawals and expenses. The book value of an investment contract is the amount owed by the issuer to the contract-holder on behalf of the plan participants, subject to certain terms and conditions. (See also market value.)

Book Value Accounting – The accounting methodology allowed under AICPA Statement of Position (SOP) 94-4-1 and FASB Statement of Position (FSP) AAG INV-1 by which the valuation of a fully benefit-responsive stable value investment contract is allowed to be reported at book value with market value or fair market value provided as additional disclosures. (If the plan sponsor is a governmental entity the accounting methodology is described under GASB Statement No. 53.) Certain pre-defined criteria by FASB or GASB have to be met in order for an investment contract to qualify for book value accounting and be reported at book value on financial statements.

Book Value Adjustment – The adjustment to an investment contract's book value in accordance with agreed-to contract terms resulting from events such as: withdrawals in excess of the contract's corridor limits, if any, employer-initiated events, impaired securities, or market value events.

Book Value Withdrawals – Benefit payments made at book value. (They are also known as qualified withdrawals or ordinary withdrawals.) Most stable value investment contracts allow book value withdrawals only for participant-initiated withdrawals.

Buffer Fund – See liquidity buffer.

Buy and Hold – A stable value investment strategy that refers to a portfolio of assets that are typically purchased and then held to maturity. In this buy and hold strategy, the investment contract associated with such assets typically terminates at the maturity of the assets. (Compare to constant duration and maturing.)

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Cash Buffer – See liquidity buffer.

Cash Flow Risk – The risk that participant-directed contributions, withdrawals, and net transfers have an adverse financial impact on the issuer of a stable value investment contract or such contract's crediting rate. Alternatively, the risk that cash flows are different than expected.

Claims Paying Ability Rating – An evaluation by an NRSRO of the financial strength and relative ability of an insurance company to pay claims on its insurance policies or contractual liabilities as distinct from its debt obligations.

Collective Fund – See commingled fund.

Commingled Fund – A fund, typically offered by a bank or trust company that combines the assets of unaffiliated plans into one large group. With respect to a stable value investment option that is a commingled fund, the fund would purchase stable value investment contracts and other investments on behalf of the invested, unaffiliated plans. These funds may also be referred to as pooled funds, pooled GIC funds, bank pooled funds, collective investment funds, bank collective trusts, commingled investment trusts (CITs), or group trusts. (Compare to a separately managed account.)

Commingled Investment Trust (CIT) – See commingled fund.

Competing Option – An investment option offered by a defined contribution plan in addition to the stable value investment option that has principal preservation as a primary objective (such as a money market option or short-term bond option) or other characteristics similar to stable value. Additionally, self-directed brokerage or mutual fund windows may be deemed competing if a competing option is made available through the window. The presence of competing options subjects stable value investment options, invested participants, and investment contract issuers to the risk of arbitrage, so the addition of such an option by the plan sponsor usually requires issuer consent and the use of an equity wash so as to restrict direct transfers from the stable value investment option to the competing option.

Comptroller of the Currency, Office of the (OCC) – A federal agency that charters and regulates national banks, including a bank's collective trusts. State-chartered banks are not subject to OCC jurisdiction, but many state banking regulations are similar to the OCC's.

Constant Duration – A stable value investment strategy that employs a portfolio of actively managed assets that are constantly rebalanced to maintain a targeted duration. In a constant duration (also known as an "evergreen") structure, the stable value investment contract does not have a defined maturity date. (Compare to buy and hold and maturing.)

Contract Value – See book value.

Contract-holder – The owner of a stable value investment contract, typically the plan sponsor or trustee. The contract-holder is usually the party responsible for taking any actions allowed or required under the terms of such contract.

Contract Issuer Risk – The risk an investment contract issuer could default, become insolvent, file for bankruptcy protection, or otherwise be deemed by the plan's or trust's auditor to no longer be financially responsible.

Contribution – The amount of money an employer and/or an employee deposits in a retirement plan established to benefit the employee.

Corridor – A provision included in an investment contract that provides a limited amount of book value coverage for certain specified employer-initiated and/or market value events.

Credit Quality – A measure of the financial soundness of an institution, indicating its ability to honor its financial obligations in a timely manner. NRSROs assign quality ratings on banks, insurance companies, and other entities based on a number of criteria, such as their financial health, industry outlook, balance sheet and management quality. A credit quality rating may also be assigned to a specific financial instrument.

Credit Quality Downgrade – A reduction in an organization's or financial instrument's credit quality rating as published by a NRSRO. A credit downgrade indicates the NRSRO's view that the financial strength of the organization or financial instrument has deteriorated.

Credit Risk – The risk that an investment will default, i.e., the borrower or guarantor (the bond or investment contract issuer) will not pay principal and interest as scheduled. (See also impaired securities.)

Crediting Rate – The interest rate applied to the book value of a stable value investment contract, typically expressed as an effective annual yield. As provided in the investment contract, the crediting rate may remain fixed for the term of the contract or may be "reset" at predetermined intervals. The crediting rate may be expressed as a gross or net crediting rate. For separate account GICs or synthetic GICs, the crediting rate is the mechanism that allows the contract to amortize differences between the book value and market value over time.

Custodian – Refers to the bank or financial institution that maintains custody (either physical or electronic) for the safekeeping of assets for the trustee of a retirement plan. Often, an institutional trustee will combine the roles of trustee and custodian.

Custody – The use of a third-party financial institution to physically or electronically hold investment securities and provide administrative services (such as pricing and market valuations) involving these securities.

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Default Risk – See credit risk.

Deferred Compensation Plan – An Internal Revenue Code Section 457(b) defined contribution plan (often for employees of states and local governments), also known as an “eligible” deferred compensation plan. The term may also generically refer to a non-qualified employee benefit plan sponsored by a private sector employer that is subject to Internal Revenue Code Section 409A.

Defined Benefit Plan – A tax-qualified pension plan that provides for the payment of a retirement benefit, according to a specified formula, usually reflecting years of employment service and salary. Required contributions by the plan sponsor are usually actuarially determined. The plan sponsor makes all investment decisions and is responsible for the funding adequacy of the plan.

Defined Contribution Plan – A tax-qualified retirement plan under which the amount of the participant's benefit will vary depending upon the amount of employer (or plan sponsor) and/or employee contributions made to the participant's account and the investment earnings or losses thereon. Most defined contribution plans that include employee contributions (e.g., 401(k) plans) permit participants to direct the investment of their accounts.

Department of Labor (DOL) – A federal agency created in 1913 to advance workers' welfare, working conditions, and, in general, employment opportunities. A division of the DOL, the Employee Benefits Security Administration (EBSA) is responsible for the interpretation and enforcement of ERISA, e.g., regulating fiduciary standards for pension plans and plan reporting on Form 5500.

Diversification – The use of a variety of investments in an effort to reduce risk exposures.

Downgrade – See credit quality downgrade.

Duration – A measure of the price sensitivity of a financial instrument or investment portfolio due to changes in interest rates, expressed in years, and calculated as the time-weighted present value of cash flows.

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EBSA – See Employee Benefits Security Administration.

Effective Annual Yield – The compound yield associated with a periodic interest rate based on the frequency of interest payments per year. As an example, if the annual interest rate is 3%, interest is credited semi-annually and the periodic interest rate is 1.5%, then the effective annual yield is 3.02%, calculated as follows:(1.015 x 1.015)-1= 3.02%. (See also crediting rate.)

Employee Benefits Security Administration (EBSA) – A division of the DOL, EBSA is responsible for the development of regulations for the security of retirement, health and certain other workplace related benefits, for assisting and educating workers, plan sponsors, fiduciaries and service providers on these rules, and for enforcing the law.

Employee Retirement Income Security Act of 1974, as amended (ERISA) – Enacted in 1974, ERISA is the source of most regulations concerning pension and profit sharing plans. Among other things, it established disclosure, reporting and fiduciary requirements, created rules for participation, vesting and funding, established plan termination guarantees for certain plans to be insured and administered by the Pension Benefit Guaranty Corporation (PBGC), and created Individual Retirement Accounts (IRAs).

Employer-Initiated Event – Plan changes or certain other related events that are in the control of the employer (including, but not limited to, a plan's termination, layoffs, or changes in a plan's design), that may trigger participant withdrawals or transfers. These withdrawals or transfers are either not covered at book value or receive limited book value coverage by stable value investment contracts. (See also book value adjustment, market value adjustment, and market value events.)

Equity Wash – A provision in a stable value investment option that requires any transfer a participant makes from the stable value investment option to a competing option to first be directed to any other investment option not designated as a competing option for a period of time (usually 90 days).

ERISA – See the Employee Retirement Income Security Act of 1974, as amended.

Evergreen – See constant duration.

Experience-Rated – See participating contract.

Expense Ratio – A fund's operating expenses expressed as a percentage of average net assets. The expense ratio for a stable value option may include investment manager fees, wrap contract and other investment contract fees, and administrative, trustee, and custody fees.

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FASB – See Financial Accounting Standards Board.

FASB Statement of Position (FSP) AAG INV-1 – FSP AAG INV-1 defines the rules under which book value accounting may be used for the investment contracts issued to commingled funds for defined contribution plans offered by public companies.

Fees – See expense ratio.

Fiduciary – As defined by ERISA, any person or firm who: (a) exercises any discretionary authority or discretionary control over the management of a plan or any authority or control over the management or disposition of its assets, (b) renders investment advice for a fee with respect to the funds or property of the plan, or has the authority or responsibility to do so, or (c) has any discretionary authority or discretionary responsibility in the administration of the plan. Under ERISA, fiduciaries have potential legal liability if they fail to follow proper procedures or are negligent in the conduct of their assigned responsibilities, or if they otherwise breach their fiduciary duties under ERISA (including if they cause the plan to engage in a non-exempt prohibited transaction).

FSP AAG INV-1 – See FASB Statement of Position (FSP) AAG INV-1.

Funding Agreement – An insurance contract under which the issuer guarantees principal, accumulated interest, and a future interest rate for a specified period of time. Unlike guaranteed investment contracts, funding agreements are not group annuity contracts and can be issued to entities other than tax-qualified plans.

Financial Accounting Standards Board (FASB) – The FASB is a private, not-for-profit, independent organization whose primary purpose is to develop generally accepted accounting principles (GAAP) for publicly held companies within the United States. The SEC, which has legal authority to establish financial accounting and reporting standards for publicly held companies under the Securities Exchange Act of 1934, designated the FASB as the organization responsible for setting such standards for public companies. The FASB is subject to oversight by the Financial Accounting Foundation (FAF), which selects the members of the FASB and the Governmental Accounting Standards Board (GASB). The FASB issued FASB Statement of Position (FSP) AAG INV-1. (See also book value accounting.)

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GASB – See the Governmental Accounting Standards Board.

General Account – The primary part of a life insurance company's balance sheet containing the assets, capital and surplus, and reserves for guaranteed liabilities.

General Account GIC – See traditional GIC.

GIC – See guaranteed investment contract.

Governmental Accounting Standards Board (GASB) – GASB is a private, not-for-profit, independent organization whose primary purpose is to develop generally accepted accounting principles (GAAP) for local and state governments within the United States. The GASB is subject to oversight by the Financial Accounting Foundation (FAF), which selects the members of the GASB and the Financial Accounting Standards Board (FASB). The GASB issued Statement No. 53. (See also book value accounting.)

Group Annuity Contract – A contract issued by an insurance company that allows a tax-qualified plan to purchase retirement annuities for plan participants. Most guaranteed investment contracts are group annuity contracts.

Guaranteed Insurance Account (GIA) – A type of stable value investment option entirely offered and guaranteed by a single insurance company, with any associated assets typically managed by the insurance company or an affiliated investment manager. These contracts are also known as guaranteed interest contracts. Guaranteed insurance accounts may be provided via a group annuity contract or a funding agreement that can be issued either from the insurer’s general account or from an insurance company separate account, in which case the investment is first supported by the assets in the segregated separate account and then, to the extent necessary, by the insurer’s general account assets and surplus. (See also guaranteed investment contract and pooled GIC fund.)

Guaranteed Investment Contract (GIC) – A stable value investment contract (typically a group annuity contract) issued by an insurance company that pays a specified rate of return for a specific period of time, offers book value accounting, typically pays benefits to plan participants, and provides annuities upon request. These contracts are also known as guaranteed insurance contracts or guaranteed interest contracts and may be backed by either an issuer's general account assets or separate account assets. In all cases, the insurance company owns the invested assets and the obligation to the contract-holder is backed by the full financial strength and credit of the issuer. A GIC that is held as an investment by a stable value investment option is typically known as a traditional GIC, while a GIC offered as the sole stable value investment option is more generally known as a guaranteed insurance account.

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Internal Revenue Code (IRC) – The Internal Revenue Code is the domestic portion of federal statutory tax law in the United States, published in various volumes of the United States Statutes at Large, and separately as Title 26 of the United States Code (USC). It is organized topically, into subtitles and sections, covering income tax (see Income tax in the United States), payroll taxes, estate taxes, gift taxes, and excise taxes; as well as procedure and administration. Its implementing agency is the Internal Revenue Service. IRC code governing tax-deferred employer-sponsored retirement savings plans include 401(k), 457, 403(b) as well as tuition assistance programs such as 529 plans.

Internal Revenue Service (IRS) – The Internal Revenue Service is the revenue service of the United States federal government. The agency is a bureau of the Department of the Treasury, and is under the immediate direction of the Commissioner of Internal Revenue. The IRS is responsible for collecting taxes and the interpretation and enforcement of the Internal Revenue Code. The IRS is responsible for the interpretation and enforcement of all tax-deferred savings plans, which include employer-sponsored defined contribution plans that include 401(k) plans, 403(b) plans and 457 plans as well as tuition assistance programs such as 529 plans.

Immunization – Managing a portfolio to a set maturity date such that the investment manager seeks to manage the value of the portfolio assets to equal the value of the corresponding liabilities at maturity.

Impaired Securities – A security, the principal and/or interest of which has not been paid in accordance with its contractual terms, e.g., has been forced to make accelerated payments, has failed to make payments when due, has reduced either the principal or interest terms from the contractual terms, or, in a stable value investment contract, no longer meets the required investment guidelines.

Index – With respect to the bond market, a group of fixed income securities that represent a segment of the bond market, e.g., the Citi 3-Month Treasury Bill Index, 3-Year Constant Maturity Treasury Index, or the Barclays U.S. Aggregate Bond Index. These indices are often used as benchmarks against which the performance of an investment portfolio may be measured.

Interest – The payment or cost for using money, usually expressed as a percentage rate per period of time. With respect to stable value investment contracts, interest refers to the amount paid or credited by the issuer to the contract-holder expressed as an effective annual yield. (See also crediting rate.)

Interest Rate Responsiveness – The degree to which a stable value investment option's yield (or an investment contract's crediting rate) moves in conjunction with the changes in the overall market level of interest rates. A stable value investment option's returns typically tend to follow changes in current interest rates, but with a lag.

Interest Rate Risk – The risk that changes in interest rates will affect the return on an investment, either positively or negatively. This effect may be due to realized or unrealized gains or losses on the investment's market value, to changes in the reinvestment rate on interest income, or to interest rates triggering prepayment or extension of principal.

Investment Contract – Any of a variety of stable value contracts including bank investment contracts, traditional GICs, separate account GICs, and synthetic GICs. Within a stable value investment option, such contracts are benefit-responsive, meaning they permit, subject to their terms and the plan's rules, participant initiated transactions at book value. Investment contracts may have a fixed or floating interest rate, which may not be less than 0%. Investment contracts may have a stated final maturity (such as a traditional GIC) or may have no stated final maturity (such as a separate account GIC or synthetic GIC). (See also guaranteed investment contract and wrap contract.)

Investment Guidelines – Guidelines established between a plan sponsor or trustee (and/or a wrap contract issuer) and an investment manager that dictate the investment parameters and risk exposures that the investment manager may assume in the investment account. In fixed income portfolios, the guidelines typically address permissible asset classes and/or securities, sector allocation limits, issuer diversification, and minimum credit quality constraints.

Investor – See participant.

Investment Options – One or more investment portfolios (whether mutual funds, commingled funds, separately managed accounts or other investment vehicles) offered within a defined contribution plan, into which participant and employer contributions may be directed. This may include equity options, bond options, balanced options, target date or risk-based options, an employer stock option, a stable value option, a money market option, or other types of options.

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Lesser of Book and Market Withdrawal – A type of plan-initiated withdrawal for plans departing certain commingled funds or insurance company stable value investment options that allow the departing plan to withdraw its investment at either the book value of the investment contract (or stable value investment option) or the market value of the associated assets supporting the book value of the investment contract (or stable value investment option), whichever is lower.

Liquidity – Generally, liquidity is the degree to which an investment can be easily sold or converted into cash, especially without affecting the investment's price. In a stable value context, it means a participant's ability to access funds without market value risk or other penalty.

Liquidity Buffer – Investments, typically a money market fund or STIF, in a stable value investment option that may be used as a first source of liquidity to absorb immediate cash flow needs without requesting withdrawals from other stable value investment option assets.

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Market Value – With respect to an investment (e.g., a bond, stock, or fund share), market value is the cash value that selling such investment at a given price in the open market generates. As prices for investments tend to fluctuate daily, the actual or implied market value of an investment will likewise tend to fluctuate daily. With respect to a portfolio of securities, many custodians, trustees, and investment managers use independent pricing services to periodically value investment holdings and, therefore, in the aggregate, determine the market value of a portfolio.

Market Value Adjustments – The adjustment to an investment contract's market value due to employer-initiated events, impaired securities, or market value events. Alternatively, for some GICs, the adjustment (sometimes known as a surrender charge or surrender value adjustment) to a GIC's market value due to termination prior to the stated maturity date.

Market Value Event – Any event or occurrence outside the normal operation of a plan that may be expected to have an adverse financial effect on the issuer of a stable value investment contract. When such an event occurs, some investment contracts require benefit payments to be made at the contract's market value or surrender value, rather than at book value. Other investment contracts may require a book value adjustment. (See also employer-initiated event.)

Maturing – A stable value investment strategy that employs a portfolio of actively managed assets but the associated investment contract either may have a defined maturity date or may not have a defined maturity date but allows periodic payments of principal and interest from the assets for liquidity purposes. (Compare to buy and hold and constant duration.)

Maturity Date – The date the principal amount of an obligation is payable.

Money Market Fund – A mutual fund that seeks to maintain a constant net asset value (NAV) of $1 per share while earning a market interest rate for shareholders. Such funds are regulated by the SEC and are comprised of short-term (typically less than one year) securities representing high-quality, liquid debt and monetary instruments. The term may also be used to refer to a Short-Term Investment Fund (STIF), which is a non-mutual fund form of money market fund.

Moody's Investors Service, Inc. – See NRSRO.

Mutual Fund Window – Similar to a Self-Directed Brokerage Window, except the investments available to supplement a plan's core investments are limited to mutual funds. (See also competing option.)

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NAIC – See National Association of Insurance Commissioners.

National Association of Insurance Commissioners (NAIC) – A regulatory support organization in the United States governed by insurance regulators from all 50 states, the District of Columbia, and five U.S. territories. The NAIC is used as a forum for the creation of model laws and regulations, that states can then decide whether to adopt (with or without modifications) or not.

Nationally Recognized Statistical Ratings Organization (NRSRO) – A firm that evaluates the financial quality of an institution's debt, the claims paying ability of life insurance companies, and/or the deposit credit rating of banks. Examples of NRSROs include Fitch Ratings, Moody's Investors Service, Inc., and Standard & Poor's Ratings Services.

Net Crediting Rate – The crediting rate after adjusting for some or all expenses and any special provisions of the product, expressed as an effective annual yield.

Non Benefit-Responsive – This term is used to describe investment contracts that do not meet the requirements of Statement of Position 94-4-1 or FASB Statement of Position AAG INV-1. Non-benefit responsive investment contracts may not be accounted for at book value. (See also benefit-responsive and book value accounting.)

Non-Participating – A characteristic of certain investment contracts, such as a traditional GIC, such that the contract's crediting rate is not affected by the contract's cash flow experience or the performance of the associated assets.

NRSRO – See Nationally Recognized Statistical Ratings Organization.

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OCC – See Comptroller of the Currency, Office of.

Office of the Comptroller of the Currency – See Comptroller of the Currency, Office of.

Ordinary Withdrawals – See book value withdrawals.

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Participant – An active employee who has met the eligibility requirements of the employer's retirement plan, a former employee (such as a retiree or terminated employee) who previously met such eligibility requirements and maintains a balance in the former employer's plan, a beneficiary, or an alternate payee. (Note that beneficiaries and alternate payees are technically "beneficiaries" rather than "participants" as defined under ERISA, but the term "participant" is commonly used in investment contracts to refer to both categories.) A participant may sometimes be called an investor because the participant of a plan directs allocations among a plan's investment options.

Participant-Directed Cash Flow – In a stable value investment option, contributions, withdrawals, loans, or transfers that are controlled by a plan's participant. (See also participant-initiated withdrawals.)

Participant-Initiated Withdrawals – Withdrawals or transfers requested by participants without any influence, inducement, or prompting by the plan sponsor or other plan intermediaries.

Participating Contract (also known as "experience rated") – An investment contract characteristic such that the contract's crediting rate varies with fluctuations in the investment earnings of the associated assets based on changes in asset values, reinvestment rates, and cash flow experience. Participating contracts participate more fully in asset and liability risks than other types of investment contracts and transfer these risks from the issuer to the stable value investment option.

Plan-Initiated Withdrawal – A withdrawal requested by a plan sponsor, trustee, or contract-holder, or agent thereof, of some or all of a plan's investment in a stable value investment option or investment contract. Plans that wish to terminate their participation in stable value commingled funds or some insurance company guaranteed insurance accounts and receive contract value may be subject to a deferral period. Any deferral period is outlined in the investment documentation (also known as a put option). Other commingled funds or insurance funds may offer a different deferral period, a series of book value payments over a period of time, or no deferral period and instead offer a lesser of book or market payment option. During any deferral period participant directed transactions will continue to be made at book value.

Plan Sponsor – The entity, usually an employer, that has established a retirement plan, selected the type of plan and investment options, and determined the method of funding plan benefits.

Pooled Fund – See commingled fund.

Pooled GIC Fund – A stable value investment option, typically offered by an insurance company, consisting of a group annuity contract that covers many, usually smaller plans. (See also guaranteed insurance account.)

Principal – The face amount of a deposit to a debt obligation or investment contract on which interest is earned.

Put Option – A stable value term (unrelated to derivatives) that describes the ability of a plan to exit a stable value commingled fund at contract value, subject to a specified notice period. A put option may mean either (1) a provision under the fund documentation that an invested plan can exit the fund at contract value by the end of a notice period or (2) a provision that many investment managers of stable value commingled funds request in their stable value investment contracts, allowing them to remove invested assets at contract value for purposes of funding plan-initiated withdrawals within the put period.

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QPAM (Qualified Professional Asset Manager) – A registered investment adviser, bank or insurance company that meets certain requirements specified by the DOL (i.e., independence from the plan sponsor and minimum equity capital and for registered investment advisers, assets under management tests). A QPAM is important to the stable value market because the DOL has issued an exemption that permits a QPAM to engage in otherwise prohibited transactions between a plan and parties in interest to that plan. Investment contracts often require a stable value manager to represent that it qualifies as a QPAM.

Qualified Withdrawals – See book value withdrawals.

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Rate Reset – The change that periodically occurs to the rate of the interest earned (also known as the crediting rate) on a stable value investment contract, as may be agreed to in the terms outlined in such contract.

Reinvestment Risk – The risk there will be a difference between the original coupon yield on an investment and the rates available when interest income is reinvested.

Risk – There are many types of risk in finance, but in general it is the probability of actual returns being less than expected returns. Investors should always carefully consider an investment's objectives, risks, and fees before investing. Although stable value investment options generally seek to preserve investor capital, provide liquidity, and generate a steady, positive return, it is important to recognize that all investments, including a stable value investment option, have risks, some of which may be unique, including the potential risk of loss of some or all of an investment. There is no guarantee that any investment option, including a stable value investment option, will achieve its investment objective.

Risk Charge – The cost embedded in every stable value investment contract to cover the risks assumed by the issuer. Typically the charge is based on the risks associated with the specific plan and/or assets involved.

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SEC – See Securities and Exchange Commission.

Section 404(c) – The section of ERISA that exempts a plan sponsor and other plan fiduciaries from fiduciary liability for losses suffered because of the participant's investment choices, so long as the plan meets certain standards and conditions, including those regarding plan structure, disclosures, communications, and that the plan offers at least three core investment options with differing risk and return characteristics.

Securities and Exchange Commission (SEC) – The U.S. Securities and Exchange Commission is a federal agency that was created by Section 4 of the Securities Exchange Act of 1934 (now codified as 15 U.S.C. § 78d and commonly referred to as the 1934 Act). The SEC holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets in the United States.

Self-Directed Brokerage Window – A structure some plan sponsors incorporate into their plan design that gives participants the opportunity to supplement a plan's core investment option menu through self-directed trading access in an in-plan brokerage account. Access to the brokerage window may allow participants to trade stocks, bonds, mutual funds, and exchange-traded funds. Participants typically pay additional fees for access to the brokerage window. (See also mutual fund window.)

Separate Account GIC – A stable value investment contract that is first supported by associated assets in a segregated separate account held by the issuing insurance company and then, to the extent necessary, by the insurer's general account assets and surplus. The crediting rate on a separate account GIC resets periodically based upon the earnings of the separate account assets. The securities held in the separate account are owned by the insurance company, but are held for the exclusive benefit of the plan or plans participating in the separate account. If the investment contract stipulates, in the event that the insurance company becomes insolvent the separate account assets may not be used to satisfy any of the insurer's other liabilities. (See also guaranteed insurance account.)

Separately Managed Account (SMA) – An investment account, typically preferred by plan sponsors with larger plans, in which the assets are owned by and managed for the specific plan's participants and are generally not commingled with the assets of other investors. With respect to a stable value investment option, when compared to commingled funds, SMAs may allow for a degree of customization.

Short-Term Investment Fund (STIF) – A short-term investment vehicle, typically with similar objectives as a money market fund, typically managed by the plan's custodian or trustee bank.

Spread – A spread is the difference between the actual earnings on some investment contracts offered by insurance companies, such as traditional GICs or general account stable value investment options, and the crediting rate that is declared and guaranteed by the insurance company for a given period. While there is no certainty an insurance company will earn a targeted spread, the anticipated spread is used to compensate the insurer for risk charges, capital charges allocated by regulators, and other expenses. An issuer attempts to earn a spread using assumptions based on many factors such as the magnitude and timing of deposits, participant cash flows, investment performance, rate environment, and potential credit impairments. (See also guaranteed insurance account.)

Sponsor – See plan sponsor.

Stable Value – Stable value is a unique asset class available only in corporate and governmental tax-qualified defined contribution plans, as well as some tuition assistance plans. When offered as an investment option in such a plan, stable value seeks to offer capital preservation, liquidity, and returns typically higher than other options focused on capital preservation, such as money market funds. Stable value investment options may be offered by investment managers, trust companies, or insurance companies in various structures, such as separately managed accounts, commingled funds or guaranteed insurance accounts. Sometimes a stable value investment option will be managed by a plan sponsor. While stable value investment options may be managed or structured in a variety of ways, the important similarity is the use of stable value investment contracts, issued by banks, insurance companies, and other financial institutions, which convey to the investment option the ability to carry certain assets at book value. These investment contracts are what enable a stable value investment option to maintain principal value and minimize return volatility. The investment options that typically purchase or offer stable value investment contracts are commonly named Fixed Income Fund, Capital Preservation Fund, GIC Fund, Interest Income Fund, Stable Interest Fund or Stable Value Fund, among others.

Stable Value Investment Association (SVIA) – A non-profit organization dedicated to educating retirement plan sponsors and participants about (1) the importance of saving for retirement and (2) the contribution that stable value investment options can make toward achieving retirement security. The SVIA provides leadership and representation for stable value investments before the media, educators, legislators, regulators, and opinion leaders, and it provides a forum for the exchange of ideas and the discussion of pertinent issues. The SVIA is further committed to supporting public and private plan sponsor members in the fulfillment of their fiduciary obligations.

Stable Value Manager – Refers to an investment manager, typically a QPAM, responsible for management and oversight of a stable value investment option. The stable value manager may manage all or only some of the associated assets of the stable value investment option.

Standard & Poor's Ratings Service – See NRSRO.

State Insurance Commissioner – The chief regulator in each state who is responsible for overseeing the activities and ensuring the solvency of insurance companies doing business in that state. In some states the Insurance Commissioner is an elected official, while in other states it is an appointed position.

Statement No. 53 – GASB Statement No. 53 defines the rules under which book value accounting may be used for certain investment contracts issued to governmental defined contribution plans.

Statement of Position (SOP) 94-4-1 – At the request of Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA) issued SOP 94-4-1. This document defines the rules under which book value accounting may be used for the investment contracts issued to non-governmental defined contribution plans. This guidance was reaffirmed in FASB Staff Position (FSP) AAG INV-1 for the use of book value accounting for investment contracts in 2004.

STIF – See short-term investment fund.

Surrender Charge – Any payment required for terminating an investment contract, typically a guaranteed investment contract, prior to its scheduled maturity date.

Synthetic – See Synthetic GIC.

Synthetic GIC (also known as a "synthetic" or "synthetic investment contract") – A stable value investment structure that offers similar characteristics as a guaranteed investment contract, i.e., pays a specified rate of return for a specific period of time, is benefit-responsive, and offers book value accounting. A synthetic GIC includes an asset ownership component and a contractual component that is intended to be valued at book value. The associated assets backing the contract's book value are owned and held in the name of the plan or the plan's trustee. Such associated assets typically consist of a diversified fixed income portfolio, including but not limited to treasury, government, mortgage, and/or corporate securities of high average credit quality. To support the book value obligation, the contract-holder relies first on any associated assets and then, to the extent those assets are insufficient, the financial backing of the wrap issuer. Wrap contracts can be issued by banks, insurance companies, or other financial institutions.

Synthetic Investment Contract – See Synthetic GIC.

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T

Tax, Legal, Regulatory, or Accounting Risk – The risk there could be a change in a law, regulation, or accounting rule applicable to the stable value investment option or any investment contract.

Tax-Deferred Savings Plan – tax-deferred savings plans are savings plans established by sections of the Internal Revenue Code and governed by the Internal Revenue Service. Tax-deferred savings plans are typically offered by employers. For defined contribution plans, these tax-deferred savings plans include 401(k), 457, 403(b) and some college tuition plans such as 529 plans.

Traditional GIC – A traditional GIC is typically a non-participating, fully guaranteed investment contract backed by the assets in an insurance company's general account. (See also guaranteed investment contract.)

Transfers – Movement by a plan participant of assets from one investment option to another option within the plan. (See also participant-directed cash flow.)

Transfer Restriction – A plan rule or contractual provision limiting the frequency, amount, or direction of participant transfers between plan investment options. (See also equity wash.)

Trustee – The person(s), bank or trust company that has responsibility over some or all financial aspects (receipts, disbursements, and investments) of a defined contribution plan or defined benefit plan. Most institutional trustees serve as "directed trustees" that are subject to direction by a plan's named fiduciaries.

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Volatility – The variability of returns in a security or portfolio over time. Volatility is measured by the standard deviation of returns of the investment. Stable value investment options tend to have very low volatility because of book value accounting, which is regulated by FASB and GASB.

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Wash – See equity wash.

Withdrawal Risk – See cash flow risk.

Wrap Contract – A stable value investment contract that "wraps" a designated portfolio of associated assets within a stable value investment option to provide an assurance (1) of principal and accumulated interest for that portfolio, (2) of payment of an interest rate, which will not be less than 0%, for a specified period of time (the crediting rate) on that portfolio, and (3) that participant-initiated withdrawals and transfers out of the assets of the portfolio will occur at book value subject to the terms of the contract. Wrap contracts can be issued by banks, insurance companies, or other financial institutions. When combined with any associated assets, a wrap contract may also be known as a synthetic GIC or synthetic investment contract. The selection of the wrap issuer is usually made separately from the selection of an investment manager's services investing the associated assets.

Wrap Fees – Expenses paid to the issuer of the wrap contract. (See also expense ratio.)

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Yield – On the date of issue of a security or investment contract, the yield refers to the coupon or interest on the security or contract. On any date after issuance, the yield of a security is based on the value of the security's cash flows. Yield can be calculated in several ways. In general, the most common method is based on the income generated over a 12 month period divided by the net asset value generating the income. The yield of an investment contract is also known as the crediting rate.

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