Stable Value Investment Association

Frequently Asked Questions:

The Basics of Stable Value

The information contained herein is provided for informational purposes only; it is not, and is not meant to be, exhaustive. It does not constitute tax, legal or investment advice. For detailed information regarding your specific stable value investment option, please contact your plan sponsor or plan administrator.

Frequently Asked Questions:

The Basics of Stable Value

What is stable value? What are the objectives of a stable value investment option?

Stable value generally refers to a relatively low-risk asset class that focuses on capital preservation and liquidity, while providing steady, positive returns to participants within certain types of savings plans. Stable value is available only in tax-qualified retirement savings plans, such as defined contribution plans, as well as in some tuition assistance plans. It is not available in either mutual funds or Individual Retirement Accounts (IRAs).

Stable value investment options are one of the most common capital preservation options available in retirement savings plans. According to the SVIA 17th Annual Stable Value Investment & Policy Survey, stable value investment options are available in over 189,000 retirement plans and tuition assistance plans, including 401(k), 457, 403(b), and 529 plans.

Stable value focuses on preserving retirement plan participants' invested capital (or principal) while providing liquidity and steady, positive returns that have exceeded money market investments over time.* Over a business cycle, most stable value investment options seek to provide returns similar to short- to intermediate-maturity bond strategies without the return volatility associated with those strategies.

While the structure of, or investments within, stable value may vary, the important similarity in all stable value investment options is the use of investment contracts, which are issued by banks and insurance companies. These contracts help smooth return volatility and importantly, they typically allow participants to transact at their invested balance plus any accrued interest. This characteristic is what is known to stable value practitioners as benefit responsiveness.

Stable value investment options may have many different names. For instance, Capital Preservation Fund, Fixed-Interest Fund, Principal Protection Fund, GIC Fund, Guaranteed Fund, Stable Interest Fund, or Stable Value Fund are common stable value names. Yet, despite this variation in names, stable value investment options all seek to offer participants the same basic benefits: capital preservation, liquidity, and steady, positive returns that have exceeded those found in money market investments over time.*

[Back to Top]

What role can stable value play in my savings and investment strategy?

Stable value is usually offered by a plan sponsor in a defined contribution plan as a low-risk investment that focuses on capital preservation and liquidity, while providing steady, positive returns to a plan's participants. This may make it appropriate for a more conservative participant seeking current income with low investment price volatility, or for a participant with a short- to intermediate-term investment horizon, or for a participant seeking a higher yield than money market investments have provided over time.* Alternatively, stable value may make sense for an individual seeking diversification who is interested in balancing other, more aggressive investments with a lower-risk investment. Lastly, some people prefer capital preservation strategies like stable value when there is significant stock market volatility or economic uncertainty. However you may determine to use stable value in your savings and investment strategy, please be aware that all investments have risk, including stable value, and there is no guarantee that any investment will achieve its objectives.

[Back to Top]

Are there different types of stable value investment options?

Yes, there are a variety of types of stable value investment options offered to the market. They may be offered by investment managers, trust companies, or insurance companies in a variety of structures, such as separately managed accounts, commingled funds, or guaranteed insurance accounts. Sometimes a stable value investment option is managed directly by a plan sponsor. The exact type of stable value investment that you have available in your retirement plan is decided by your plan sponsor.

Stable value investment options may be managed and structured in a variety of ways, but the important similarity is the use of investment contracts, issued by banks and insurance companies. These investment contracts enable stable value to be benefit responsive, which is the ability to transact at contract value while also providing the mechanism to minimize return volatility. The type of funds that purchase or offer stable value investment contracts are commonly named Capital Preservation Fund, Fixed-Interest Fund, Principal Protection Fund, GIC Fund, Guaranteed Fund, Stable Interest Fund, or Stable Value Fund, among others.

[Back to Top]

What are GICs and Wraps?

In stable value investing, GICs and wraps are essentially two of several types of investment contracts that are used to help deliver to participants the attractive stable value characteristics of low return volatility with returns that have exceed those of money market investments over time.*

A guaranteed investment contract, or GIC, is a stable value investment contract issued by an insurance company that usually pays a specified rate of return for a specific period of time, guarantees principal and accumulated interest (i.e., offers book value accounting), and is benefit responsive to qualified participant withdrawals. These contracts, which are also known as guaranteed insurance contracts, may be backed by either an issuer's general account assets, or by separate account assets which are segregated from the general account and are solely for the beneficial interest of the participants in a specific separate account. In all cases, the insurance company owns the invested assets and the obligation to participants is ultimately backed by the full financial strength and credit of the issuer.

A wrap contract is structurally different than a GIC but seeks to provide the same stable value benefits to participants. The key difference between a GIC and a wrap contract is that under a wrap contract the associated invested assets are usually owned outright by the plan in a synthetic GIC structure or segregated in the plan's name in an insurance separate account wrap. This split structure allows decisions such as the selection of the wrap issuer to be made separately from the selection of an investment manager's services for the investment of the associated assets. To support the book value guarantee made to participants, this structure relies on both the value of the associated assets and the financial backing of the wrap issuer. Wrap contracts can be issued by banks and insurance companies.

The important concept is that stable value investment options use investment contracts to help deliver the unique benefits for which stable value is known: capital preservation, liquidity, and steady, positive returns that have exceeded money market investments over time.*

[Back to Top]

What risks should I be aware of when investing in stable value?

Although stable value has a long, well established track record of preserving capital, providing liquidity, and generating steady, positive returns, it is important to recognize that all investments have risks, including the potential risk of loss of some or all of an investment.

Any investment option is subject to general investment risk and there is no guarantee that it will achieve its objectives. Investors should always carefully consider the investment objectives, fees, and all of the risks of any investment before investing.

Investing in stable value is subject to many similar risks present when investing in fixed income, including, but not limited to, credit risk, default risk, interest rate risk, issuer risk, liquidity risk, manager risk, market risk, regulatory risk, and tax and accounting risk.

Importantly, there are also some risks that are of particular importance to the stable value asset class. The specific risks you assume as a participant invested in your stable value option will depend upon the type of stable value investment vehicle that your plan sponsor has chosen as appropriate for your retirement plan. However, some risks to consider when investing in stable value include, but are not limited to:

- Cash Flow risk, participant-directed contributions, withdrawals, and net transfers can have an adverse financial impact on the issuer of a stable value investment contract or such contract's crediting rate.
- Contract risk, the investment contract provider could default, become insolvent, file for bankruptcy protection, or otherwise be deemed by the option's auditor to no longer be financially responsible
- Manager risk, the chance that poor security selection, a focus on securities in a particular sector, category, or group of companies, a lack of diversification of the underlying investments, or a poor selection of investment contract issuer(s), will cause the fund to fail to perform as otherwise expected.
- Event risk, the chance that an investment contract issuer will pay benefits at a value less than book value because of the occurrence of an event or condition that is outside the plan's normal operation. Such events and conditions may include (unless approved by contract issuers), but may not be limited to, significant layoffs, sale of a division, plan sponsor insolvency or bankruptcy, unreported changes in a plan's investment options, communications encouraging an investor to withdraw assets from the option, and, in general, plan changes or plan sponsor actions that may result in reduced contributions or large cash flows out of the option. These may also be known as employer-initiated events or market value events.
- Tax, legal, regulatory, or accounting risk, the chance there could be a change in a law, regulation, or accounting rule applicable to the stable value option or any investment contract.

Importantly, a stable value option may be subject to risks other than those described above. This list is not meant to be exhaustive. Please contact your plan sponsor or plan administrator if you have any questions regarding your particular investment.

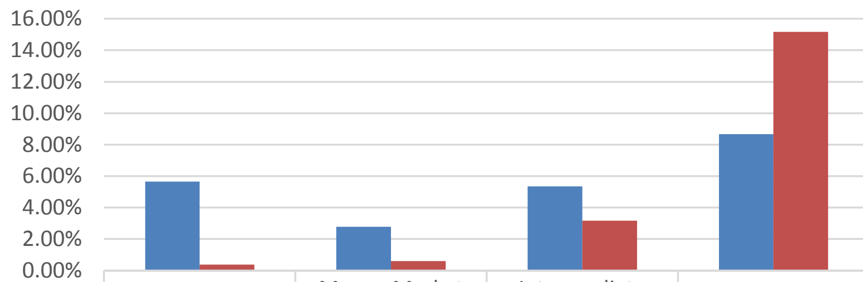
[Back to Top]

How does stable value compare to other investment options?

Stable value investment options generally have the objective of preserving a participant's invested capital (or principal) while providing liquidity and steady, positive returns that have exceeded those available in money market investments over time.* In fact, over a business cycle, most stable value investment options have historically provided gross returns similar to short- to intermediate-maturity bond strategies but without the daily mark-to-market volatility. The table below illustrates the relative risk (as measured by standard deviation) and gross returns of stable value investments over time:

How Stable Value Stacks Up

9/30/1993 - 9/30/2013



	Stable Value	Money Market Funds	Intermediate Bond Funds	Stocks
Average Gross Return	5.65%	2.79%	5.35%	8.66%
Standard Deviation (a measure of risk)	0.38%	0.61%	3.16%	15.16%

Table footnotes:

"Stable Value" is a simulation of book value returns in a hypothetical fund holding intermediate bonds and stable value wrap contracts, with crediting interest rates reset monthly using the industry accepted crediting rate formula. The bond returns incorporated into the simulation are monthly market value returns from the Barclays Intermediate Government/Credit Bond Index, with gains/losses reflected in future crediting rates by amortizing market-vs.-book values over intermediate bond index durations. This simulation incorporates no ongoing cash flows into or out of the fund. Returns illustrated are gross before any fees.

"Money Market Funds" is a simulation of money market returns from the iMoneyNet MFR Money Funds Index. Returns illustrated are gross before any fees.

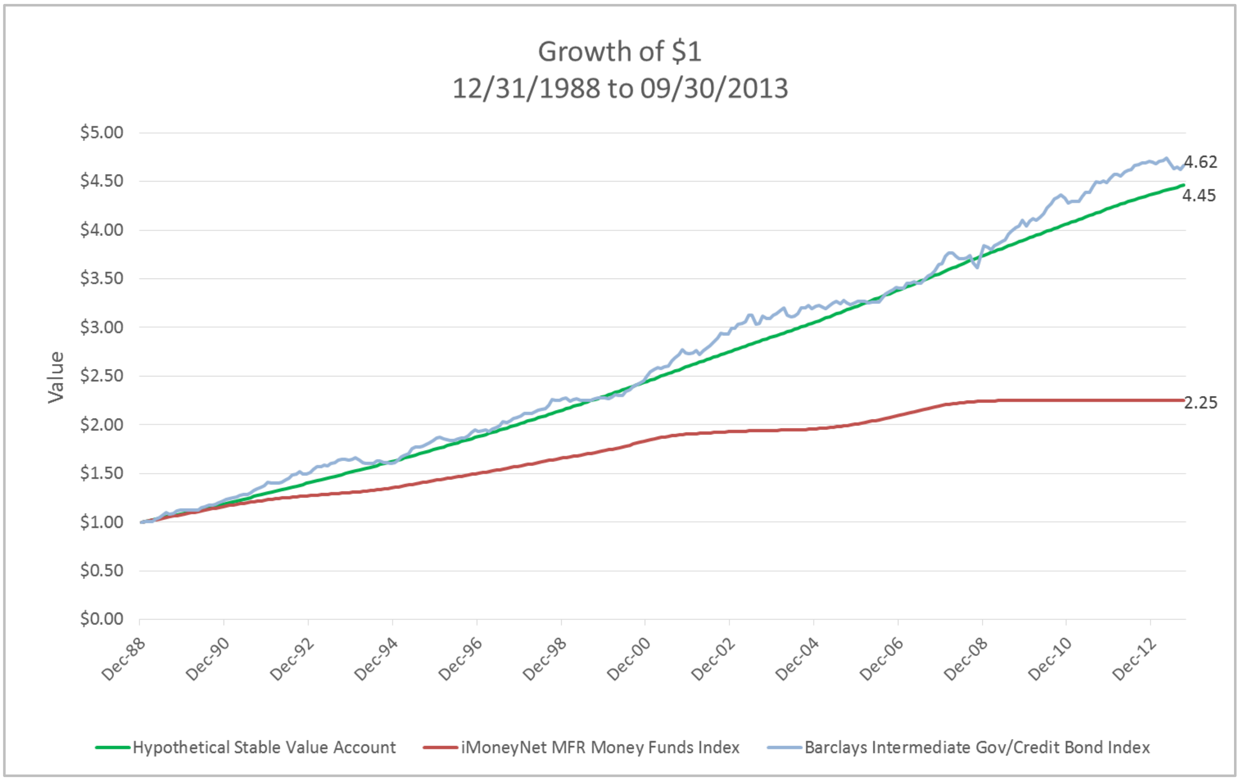
"Intermediate Bonds" is a simulation of market value bond fund returns from the Barclays Intermediate Government/Credit Bond Index. Returns illustrated are gross before any fees.

"Stocks" is the S&P 500 Index with dividends reinvested: a widely used barometer of U.S. stock market performance; as a market-weighted index of leading companies in leading industries, it is dominated by large-capitalization companies. Returns illustrated are gross before any fees.

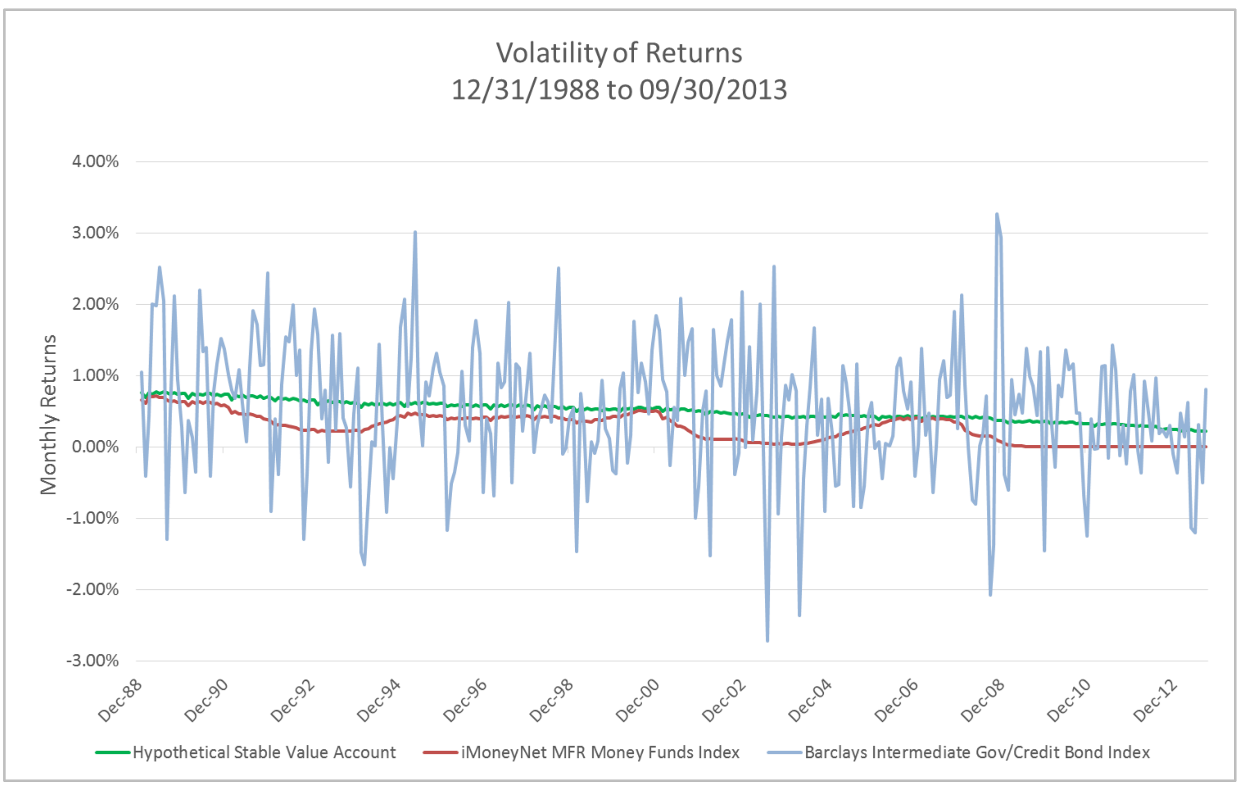
The performance data shown represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the performance data cited. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

For the 20 year period ending August 31, 2013 stable value simulated returns averaged a gross return of 5.67% with a standard deviation, which is a measure of risk, of 0.37%. For money market funds, the average total return was 2.80% with a standard deviation of 0.61%; for intermediate-term bonds, 5.39% and 3.17%; and for stocks, 8.71% and 15.17%.

As shown in the chart below, over the long term, the growth of $1 invested in the stable value simulated portfolio outpaced that of the money market index (which is of much shorter duration than the stable value model portfolio), but also captured most of the cumulative growth of $1 in the Barclays Intermediate-Term Bond Index.*



Also important to investors is the volatility of returns, and as show in the following chart, the volatility of the stable value model portfolio's monthly returns is similar to that of the money market index, and far less variable than that of the intermediate-term bond index.*



[Back to Top]

What is an equity wash and why is it required with stable value?

An equity wash is a contractual provision in a stable value investment option that requires any transfer a participant makes from the stable value investment option to a competing option (for example, a money market fund or a short-term bond fund) to first be directed to any other investment option not designated as a competing option for a period of time, usually 90 days. This provision is designed to reduce any arbitrage incentive and disruptive cash flows, thereby protecting the participants and the returns of the stable value investment option over the long term.

[Back to Top]

Is stable value regulated?

Yes, stable value investment options, investment contracts, investment managers, and other service providers such as insurance companies involved in stable value have multiple layers of regulatory oversight provided by a variety of federal and state governmental regulatory bodies as well as by non-governmental bodies.

For instance, most stable value investment options offered by non-governmental (i.e., corporate) plan sponsors are regulated by the Department of Labor's (DOL) Employee Benefits Security Administration (EBSA). These stable value investment options must comply with the federal pension law, the Employee Retirement Income Security Act (ERISA). Stable value investment options in defined contribution plans offered by state and local governments (e.g., 457 plans) are regulated by that state's law, which, in many cases, have requirements similar to ERISA.

In addition to the Department of Labor, commingled investment trusts (CITs) managed by banks and investment contracts issued by banks are regulated by the Office of the Comptroller of Currency and/or the Federal Reserve, or by the respective state for state-chartered banks. Similarly, for insurance companies, stable value investment options such as guaranteed insurance accounts or insurance company issued investment contracts, such as GICs, separate account GICs, or wrap contracts, are regulated by each insurance company's home state's State Insurance Commissioner and governed by state law.

Additionally, to qualify for book value accounting and reporting, all stable value investment options offered by a defined contribution plan must comply with accounting regulations as promulgated either by the Financial Accounting Standards Board (FASB) if the plan is a non-governmental plan, or by the Governmental Accounting Standards Board (GASB) if the plan is a state or local governmental plan. FASB and GASB are both private, not-for-profit, independent organizations whose primary purpose is to develop generally accepted accounting principles (GAAP) under their respective regulatory purview within the United States. The Securities and Exchange Commission, 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. Both FASB and GASB are subject to oversight by the Financial Accounting Foundation (FAF).

[Back to Top]

Why can't I find a "ticker" for my stable value investment option? How do I get information about my stable value investment option?

Stable value investment options do not exist in publically available investment vehicles, such as mutual funds. Plan sponsors can consider a variety of investment vehicles when constructing the investment options in your retirement plan's line-up, such as mutual funds, commingled investment trusts (CITs), or separately managed accounts. While most participants are familiar with mutual funds, there are other investment vehicles that plan sponsors may choose for various reasons, including strategies that are not available in a mutual fund format.

Stable value investment options are one of those types of vehicles – they are not available as a mutual fund. They are available as either a separately managed account, commingled investment trust, or as a guaranteed insurance account. This is why participants who look for their stable value ticker cannot find one.

In fact, stable value investment options are only available in retirement savings plans, such as a 401(k) or 403(b) and 457 plans, and some tuition assistance plans, such as 529 plans. The best source of information about the specific investment options in your retirement plan is your plan sponsor or plan administrator.
[Back to Top]

Why can't I find a stable value investment option for my IRA or taxable brokerage account?

Because of regulatory rules, stable value as an asset class is not available in either IRAs or taxable accounts. Stable value investment contracts—and the stable value investment options that rely on them to deliver to participants capital preservation, liquidity, and steady, positive returns, which are hallmark characteristic of the asset class—are only available for tax-qualified retirement savings and tuition assistance plans, such as 401(k), 457, 403(b), and 529 plans.

It is important for participants to understand that if they roll-over their assets from their employers' defined contribution plan into an IRA they will no longer have access to stable value.
[Back to Top]

* Past performance is not a guarantee of future results.

Stable Value Investment Association

1025 Connecticut Ave NW Suite 1000
Washington, DC 20002
202-580-7620
www.stablevalue.org