2009 ERISA Advisory Council

Stable Value Funds and Retirement Security in the Current Economic Conditions

Issue Chair	Patricia Brambley
Issue Vice Chair	Theresa Atanasio

Description

Stable Value Funds (SVFs) currently represent a significant share of assets in 401(k) plans, 15% to 20% according to some sources. Long a staple in a plan's investment offering line-up, they are designed to offer participants a guarantee of principal and a positive investment return based upon contractual agreements from a stable value provider. Given the turmoil in the stock and bond markets in 2008, plan participants have directed more to these funds, since they are often viewed as a safe haven from market volatility.

Given participant expectations regarding these funds, plan sponsors and their consultants may benefit from guidance on the fiduciary duties required in both (1) selecting, monitoring and valuing these investments and (2) providing information to participants so they may make informed decisions.

The Council plans to study SVFs to determine if the Department of Labor should provide (i) requirements or guidelines for the design or marketing of these investments to plan sponsors and retirement service providers, (ii) requirements and guidelines to plans sponsors for selecting and monitoring SVFs and (iii) information to plan participants that best allow them to make informed decisions regarding these investments.

Objective and Scope

The Council is examining this topic and intends to draft recommendations for the Secretary of the Department of Labor to consider. Our study will focus on:

- The intended purpose of the products and historic results against that purpose
- Any risks or potential areas of improvement in the design or marketing of the products
- The role of the Labor Department in mitigating those risks and areas of concern
- Guidelines for plan sponsors when considering whether to add or remove these investments,
- How SVFs fit within a 401(c) plan's investment line-up, and
- Appropriateness of SVFs as a qualified default investment alternative, including historic results when used as a default investment.

Our study will determine:

1. The Department of Labor's role generally in determining investment structure and marketing (e.g., similar to the current debate regarding Target Date Funds)
2. Whether, and what, additional guidance would help plan sponsors and their consultants in choosing, valuing and monitoring such funds.
3. Whether or not current disclosures to participants regarding SVFs are sufficient given providers' desire to communicate directly with participants.

4. If it would be appropriate to include SVFs as a stand alone qualified default investment alternative
5. If additional guidance on existing regulations may be needed in light of the current and future economic environment.

Stable Value Funds – What should fiduciaries consider?

1. How do they work?

2. Do plan sponsors and their consultants have adequate knowledge to understand whether a particular SVF is an appropriate investment for their plan (e.g., do they understand the difference between book and market value)? Do they understand how the underlying bond portfolio is being managed and how the manager is attempting to add value?

3. Are plan sponsors, consultants and participants aware of the advantages and disadvantages of these products?

4. What are the risks, if any, and how can they be mitigated?

5. Are they suitable for QDIA, in light of the current and future economic environment?

6. What characteristics about SVFs make them different in selecting and monitoring them?

7. Is there any reason why additional or different regulatory guidance is needed for SVFs compared to guidance for other investment decisions by fiduciaries?

8. What should participants be made aware of? Is more disclosure needed?

9. How is market value adjustment determined, when is it applicable and how does it vary by product?

10. How are fees disclosed? What is appropriate? Or is it sufficient just to know what the crediting rate is?

11. Interaction of competing funds – Why are they selected by plans sponsors?

12. How are they benchmarked for both book value returns and market value returns?

13. What is the role of the provider versus the plan sponsor or fiduciary in connection with disclosure?