# 2022 Stable Value Study

## Broadening the Scope of Stable Value's Volatility Reduction

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## INTRODUCTION

For defined contribution (DC) plan sponsors, the primary objectives of DC plan design and management are understanding their plan participants' long-term savings and investment goals and helping them achieve retirement income security. Because plan participants have very different financial circumstances, selecting plan investment options that best serve the largest number of participants is challenging. Having DC plan solutions that are designed to help mitigate the effects of volatility is also critical — especially for those nearing or already in retirement, who typically have a low risk tolerance and a limited time horizon to recover from market losses.

In this fifth study that MetLife commissioned to gain strategic insight into the use of stable value in DC plans, MetLife has broadened the scope of the study beyond stable value as a capital preservation option. The study also explores stable value's potential to optimize returns, while minimizing volatility, in target date funds (TDFs).

### Capital Preservation in DC Plans

As one of the leading issuers of stable value solutions, MetLife believes it is important to continually assess plan sponsors' attitudes toward stable value as a capital preservation option. Stable value, which is offered in eight in 10 DC plans, is an investment option designed to offer plan participants the greatest total return consistent with protection of principal.

The 2022 Stable Value Study℠ revisits plan sponsors' selection of stable value as a capital preservation option, as well as the frequency with which advisors recommend stable value to their plan sponsor-clients. The study also reviews perceptions about stable value's performance, including how it compares to that of money market funds. By contrasting perceptions to actual historical performance, the study shows that stable value, which is the only capital preservation option designed specifically for qualified retirement plans, has consistently given plan participants significantly greater returns than money market funds.

### Return and Volatility Management in TDFs

In this latest study, MetLife also focuses on the views of DC plan sponsors and advisors about the tradeoffs between return and risk and, as TDFs increasingly dominate DC plan investment lineups, the potential of stable value to optimize risk/return in the TDFs they offer.

In addition to the insights obtained by surveying DC plan sponsors and advisors, we also gained perspective on capital preservation options and market volatility strategies from stable value fund (SVF) providers.

STUDY FINDINGS

## Views on DC plan capital preservation

# Stable value continues to be widely offered to plan participants

Stable value has long been a cornerstone of 401(k) and other workplace retirement plans (i.e., 403(b) and 457 plans). Today, eight in 10 DC plan sponsors (82%) offer stable value as a capital preservation option, including a third who offer both stable value and money market. Most plan sponsors that offer stable value first started offering stable value more than five years ago, and nearly all (98%) say they are not planning to make any changes to their stable value offering.

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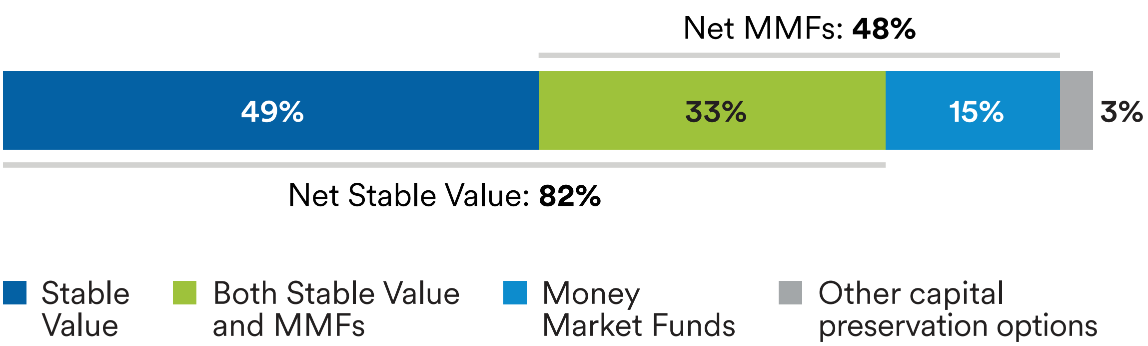
The use of money market funds has declined significantly since 2015, with less than half of sponsors (48%) offering money market as a capital preservation option today (down from 52% in 2017 and 62% in 2015). Of those offering money market funds, very few offer money market funds on their own (15%); more than double (33%) offer money market alongside stable value.

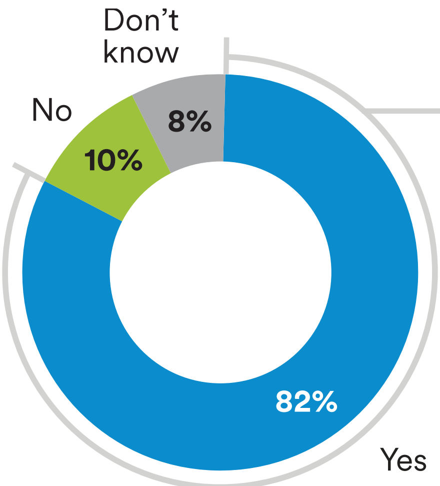
### Capital preservation options offered by plan sponsors



# Plan sponsors and their advisors closely align on why stable value is the preferred capital preservation option

When looking at why companies offer stable value, almost all stable value fund providers (91%) say it is stable value's better returns compared to those of money market funds and other capital preservations options, and nearly half say that advisor recommendations (45%) are the primary reasons. Among the advisors that recommend stable value, nearly all (90%) cite stable value's superior performance compared to money market funds. Among plan sponsors who offer stable value, 82% say that it was recommended by their advisors, and 64% cite that recommendation as a top reason for offering stable value.

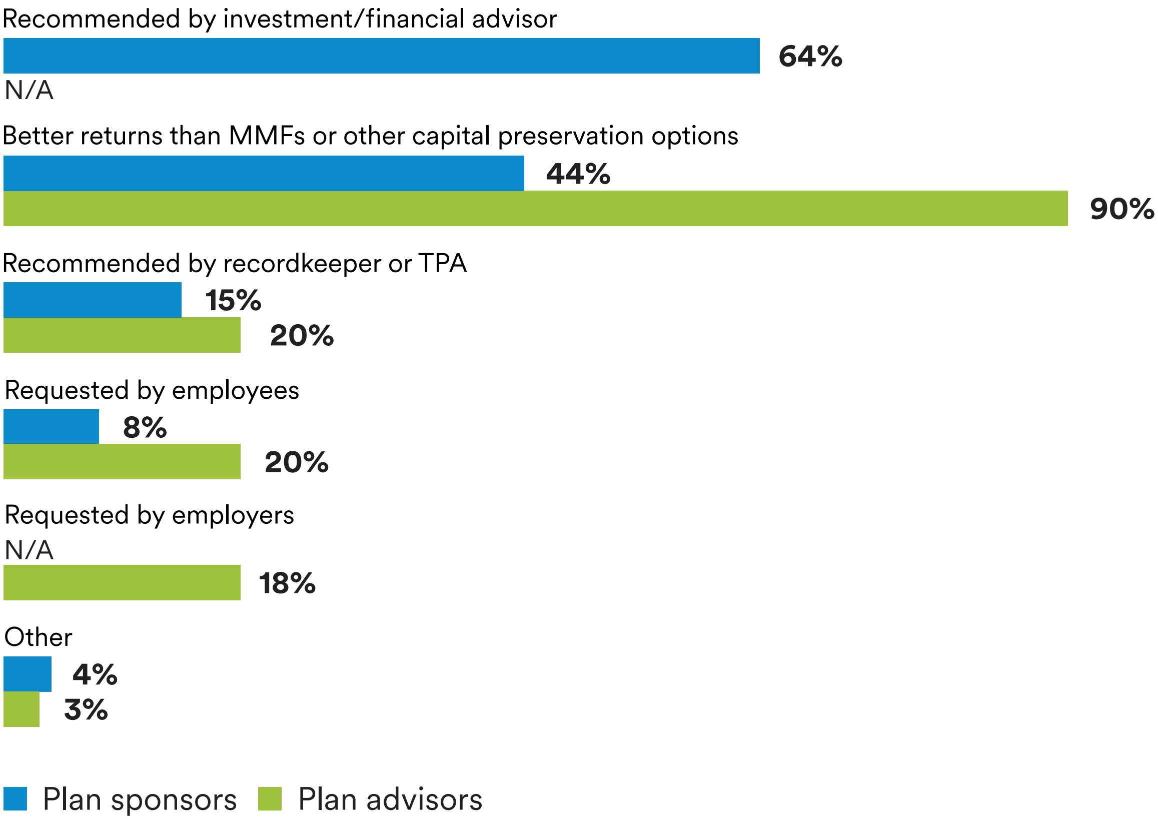
**Whether stable value was recommended as a capital preservation option**




**82%**

of plan sponsors say stable value was recommended by their plan advisor

### Top reasons for offering/recommending stable value




Note: Multiple responses were permitted

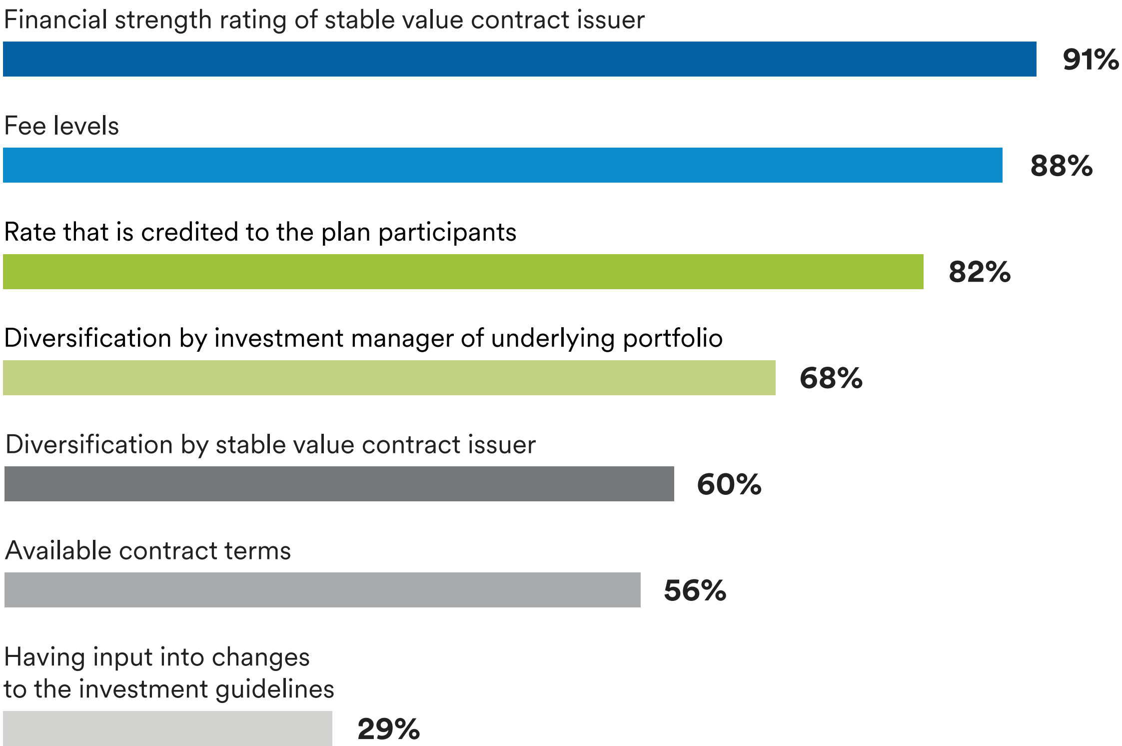
Of the advisors who recommend money market funds, only 12% say they do so because they believe money market funds offer greater returns than stable value — despite the fact that stable value has consistently outperformed money market. Similarly, only 9% of plan sponsors who offer money market funds only also believe that money market funds outperform stable value. Among plan sponsors who offer money market funds, 76% say that it was recommended by their advisor, and 60% say that was the primary reason for their selection. The 60% result is up 14 percentage points from the 46% in 2017, suggesting that advisors yield significant influence with plan sponsors in their investment option selection.

# Financial strength ratings top the list of considerations when deciding which stable value solution to offer

When considering which stable value solution to select, plan sponsors cite the financial strength rating of issuers (91%), fee levels (88%) and the rate that is credited to plan participants (82%) as a very or extremely important consideration. Nearly nine in 10 advisors (89%) also cite the financial strength rating of the issuer as a very or extremely important factor when considering which stable value solution to recommend, followed by crediting rate (80%) and fee levels (68%) — with financial strength rating most commonly being the most important factor.

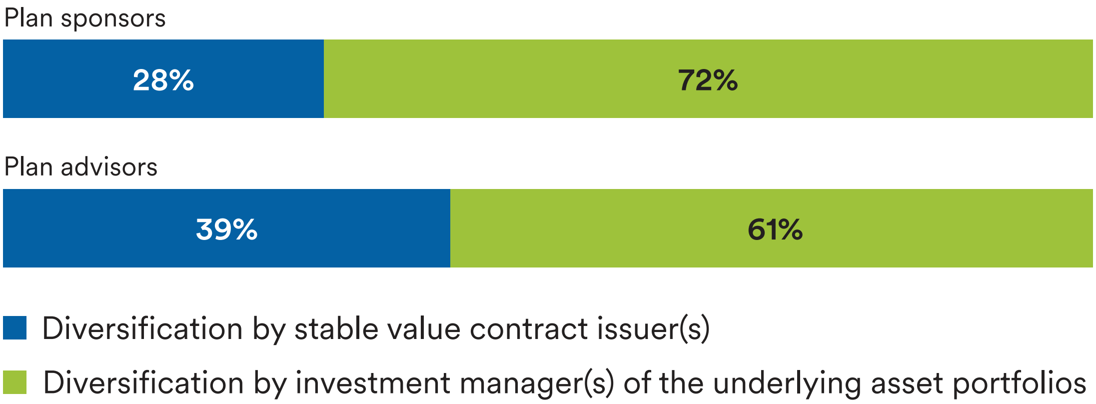
**Important factors for plan sponsors when selecting stable value solutions**

% of those stating this is extremely or very important



For plan sponsors, diversification by investment manager(s) of the underlying asset portfolios (72%) is much more important than diversification by stable value contract issuer(s) (28%).

### Diversification importance

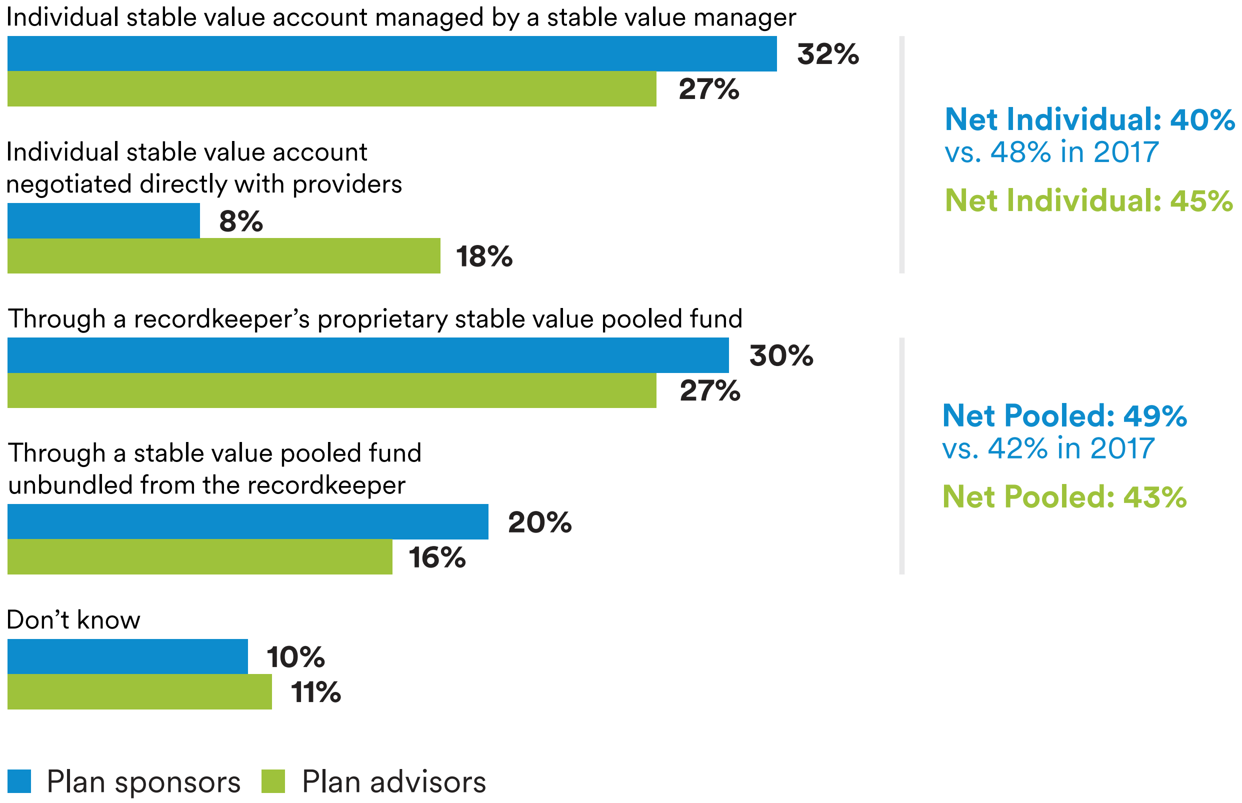



While 53% of plan sponsors say their documentation for the selection of their capital preservation option includes a quantitative analysis of the return and risk characteristics of different capital preservation options, fewer plan providers and advisors (45% and 37%, respectively) believe that a majority of their clients have documentation supporting their decision about their plans' capital preservation option(s).

# Plan sponsors split on offering stable value individually or through a pooled fund

Advisors say their clients are evenly split between offering stable value through individual and pooled stable value options but slightly more plan sponsors (49%) are offering stable value through pooled funds than individually (40%). There has been a slight increase in sponsors offering stable value through pooled funds in the last five years (49% today, up from 42% in 2017), while offering stable value individually has declined (40% today, down from 48% in 2017).

### How stable value is provided



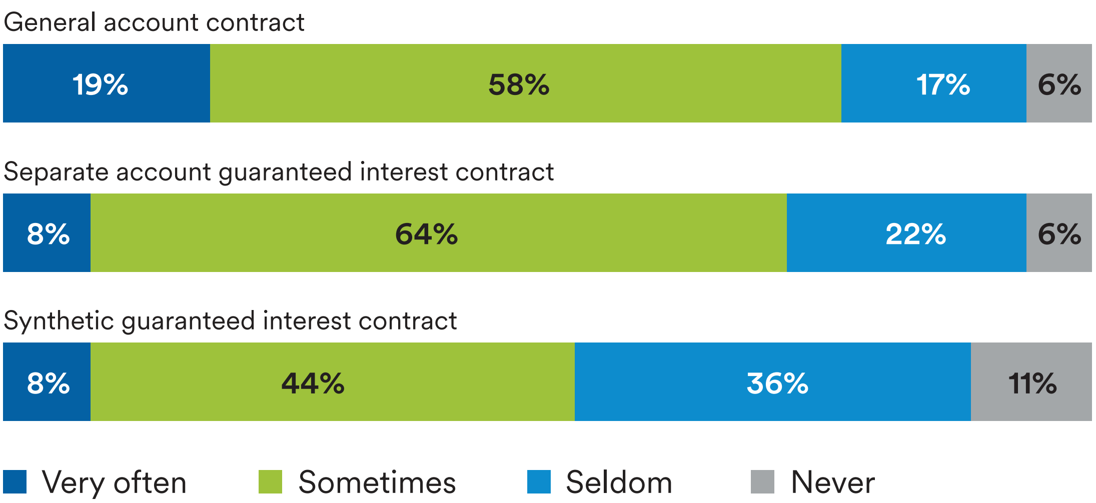
Advisors who have clients with individually managed solutions are using a variety of stable value contract types. These include general account, separate account, and synthetic contracts. General account contracts are group annuity contracts that credit a specified interest rate for a defined period of time. The contract is an asset of the plan or trust and is backed by the contract issuer's general account. General account contracts are non-participating, as the credited rate is guaranteed regardless of the actual investment experience of the general account or the amount or timing of participant withdrawals.

Separate Account GICs are group annuity contracts where the contract liabilities are supported by insurance company separate accounts. These separate accounts are segregated from the insurer's general account and are for the beneficial interest of those participating in the separate account. Like the assets of a general account, the assets of insurer separate accounts are owned and managed by the insurer and may be sub-advised by one or more third-party investment managers selected by the insurer.

With Synthetic GICs, the qualified plan trust owns and holds the underlying invested assets supporting the stable value fund. The plan sponsor enters into separate contracts with asset managers and wrap providers.

**Plan advisors: Products in individually managed stable value offerings**

Among those whose clients have individual structures



## The target date fund landscape

# Defined contribution plan sponsors are concerned about market volatility, especially for participants near — or in — retirement

With target date funds increasingly dominating DC plan assets, ensuring TDF investors' assets are adequately protected from market volatility is critical to retirement income security.

Those already in retirement are the most vulnerable to the impact market volatility can have on their portfolio as they try to balance investment growth with protection from volatility. Older workers, particularly those within 10 years of retirement, can also be significantly negatively impacted by volatility because of the short time horizon they have to recover from losses in their portfolio.

When plan sponsors were asked about their level of concern regarding the ability of DC plan participants to mitigate the impact of market volatility, many expressed concern — particularly for those already retired or approaching retirement. Seven in 10 plan sponsors (70%) are concerned about the impact of market volatility on retirees, 67% are concerned about those within 10 years of retirement and 52% are concerned about those more than 10 years away from retirement.

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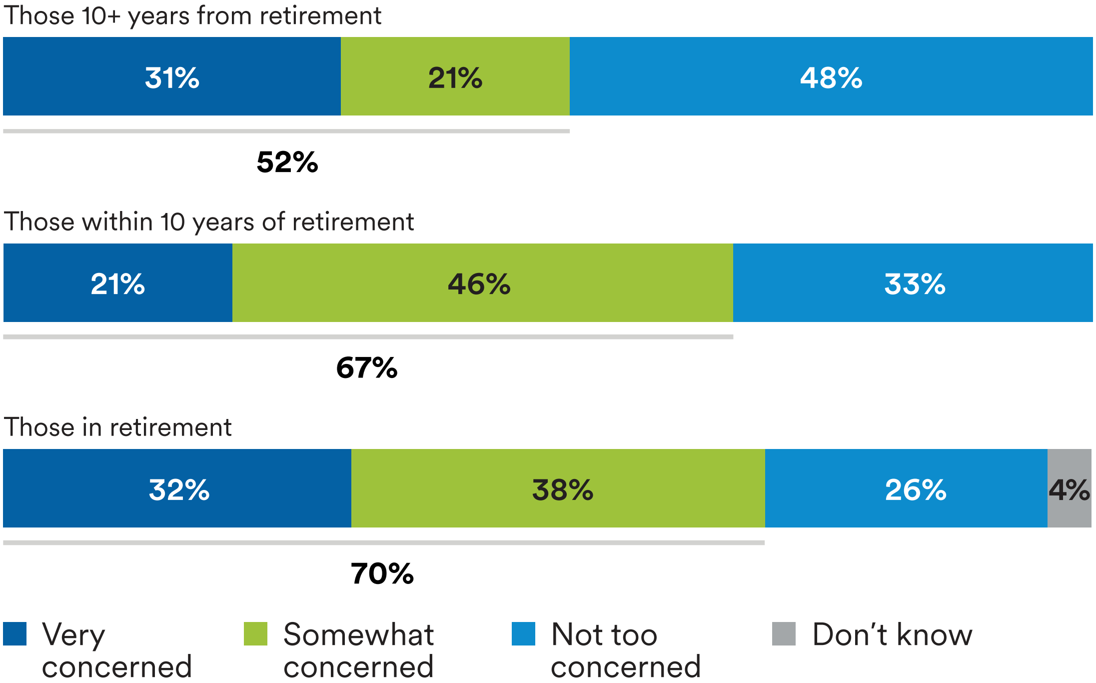
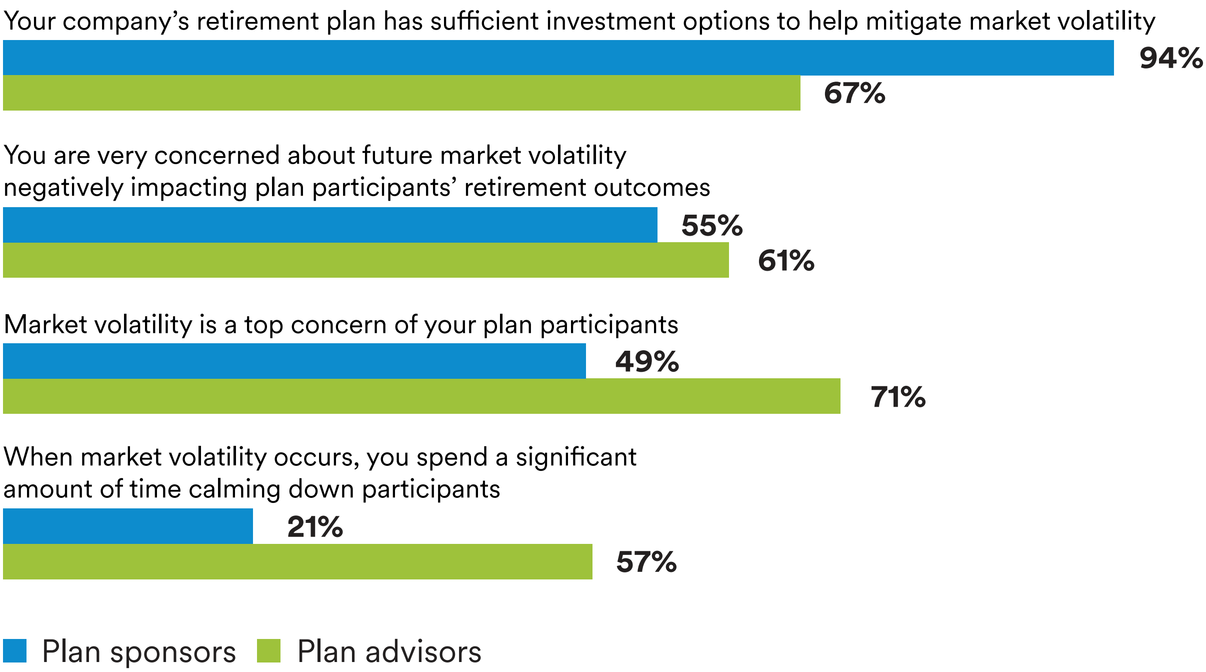
### Plan sponsor concerns around participants' ability to weather impact of market volatility




# Plan advisors and plan sponsors express concern about the impact of market volatility on participant retirement outcomes

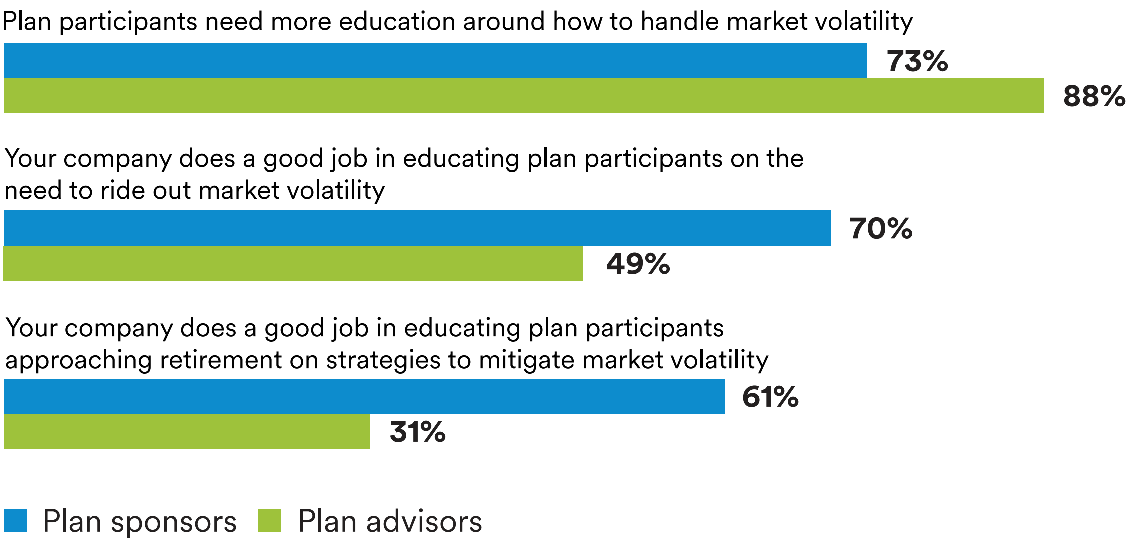
More than half of plan sponsors (55%) and 61% of advisors are very concerned about future market volatility impacting plan participants' retirement outcomes, and 49% of plan sponsors and 71% of advisors believe that market volatility is a top concern of plan participants.

### Sentiment around market volatility



While many plan sponsors think their company sufficiently educates participants about mitigating and/or handling the impact of market volatility, three-quarters think more education is needed. Advisors agree on the need for more participant education but are less likely to think their clients are currently doing a good job. Sponsors of plans with higher assets under management (AUM) and more participants are more likely to agree their company does a good job in educating plan participants on the need to ride out market volatility.

### Sentiment around market volatility education




# Plan sponsors are more likely than advisors to think TDF allocations should be more conservative for those near and in retirement

TDFs take retirement investment decision-making out of the hands of DC plan participants by using a set-it-and-forget-it approach. An important consideration when a TDF is constructed is the mix of equities and fixed income for various participant age cohorts. When plan sponsors and advisors were asked if TDF portfolios should be 50/50 (i.e., 50% equity/50% fixed income), more aggressive, or less aggressive for various participants categories, 71% of plan sponsors and 47% of plan advisors thought portfolios should be less aggressive for those in retirement.

**An important consideration when a TDF is constructed is the mix of equities and fixed income for various participant age cohorts.**

Similarly, plan sponsors have concerns about the TDF equity allocations for those within 10 years of retirement. However, there appears to be a disconnect between plan advisors and their plan sponsor-clients for this cohort: 67% of plan advisors think their TDF portfolios should be more aggressive versus only 29% of plan sponsors who feel this way.

Additionally, the survey found that nearly one in five plan sponsors (18%) are likely to say that it is very or somewhat common for plan participants to delay retirement due to experiencing market losses in their TDFs.

# Companies report greater economies of scale when retirees keep money in the DC plan

Plan sponsors report that a median of 40% of DC plan participants keep their assets in the plan after retirement, and half say their TDFs are intended for participants to stay within the same fund after retirement. This finding that retirees remain in the plan highlights the need for TDFs to be structured to best meet their need to address the impact of market volatility.

Among plan sponsors whose participants keep assets in the plan after retirement, many say this increases economies of scale and reduces costs for their DC plan. This is cited by six in 10 plan sponsors (62%). Larger plans (those with more than 5,000 plan participants and those with $100M or more) are more likely to report higher percentages keeping money in plan post retirement (median 50%, each).

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# Plan sponsors would be interested in increasing equity in TDF glidepaths if the impact of market volatility could be minimized

When asked if their firm has implemented or considered investment strategies to manage the impact of market volatility in their TDFs, only 12% of plan sponsors have implemented and 8% are considering implementing market volatility strategies — even though 58% of plan advisors have recommended or considered recommending TDF volatility management strategies. These strategies range from diversification of asset classes to the inclusion of stable value and fixed income options.

Seven in 10 plan sponsors (71%) would be interested in adding an increased level of equity in their TDFs glide path to enhance returns if the impact of market volatility could be mitigated, including 21% who would be extremely or very interested.

# Interest is aligned on features that can reduce volatility and enhance returns

Although few TDFs today include strategies to reduce volatility with the ability to enhance returns, which are principles of stable value, there appears to be significant interest in solutions that can do both. Today, plan sponsors are fairly evenly split when asked whether reducing volatility while maintaining returns, or improving returns while maintaining current level of volatility, is more important in optimizing target date funds. However, both plan advisors and fund providers gravitate toward smoothing out volatility more than improving returns (65% versus 35% and 64% versus 36%, respectively).

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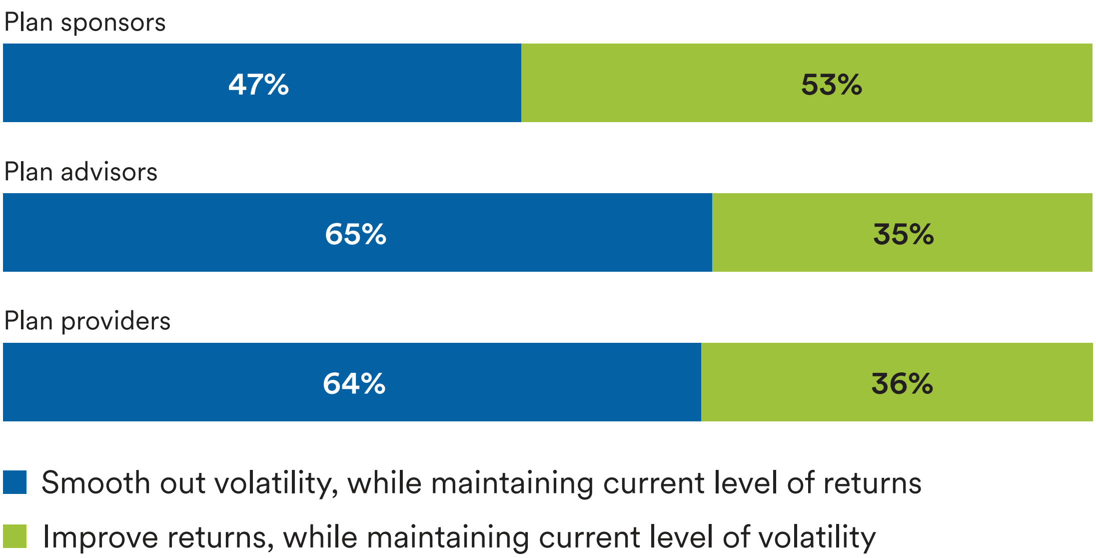
**TDF providers: volatility vs. returns**



However, when given a more specific example of how this works in practice, interest grows considerably. For example, if the TDF provider could utilize a solution that generates net returns four times more than the cost associated with delivering those incremental returns (e.g., 60 basis points enhanced net returns for a cost of 15 basis points) while keeping volatility constant, 89% of plan sponsors and 97% of advisors would be interested in this feature. There is also significant interest — 86% of plan sponsors and 94% of plan advisors — in a feature that could maintain comparable returns, net of fees, while reducing volatility by approximately 40%.

# Few custom TDFs offered but interest appears to be growing

To ensure that TDFs meet the needs of plan participants, the Department of Labor has said that ERISA plan fiduciaries should "inquire about whether a custom or non-proprietary target date fund would be a better fit for [their] plan..." Despite the DOL's suggestion, most plan sponsors or advisors select off-the-shelf TDFs, which may not be the best fit for the plan's participants.

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Although relatively few companies have a TDF that has been constructed for them, the use of custom TDFs may grow in the future. One in four advisors (27%) are considering recommending or constructing custom TDFs for their plan sponsor-clients, and over half of plan sponsors without a custom TDF say they would be motivated to consider a custom TDF based on their advisors' recommendation. For advisors, volatility and dissatisfaction with off-the-shelf TDFs would be the top motivators for considering custom options. Directionally, the study also found that 41% of plan sponsors and 75% of plan advisors who are concerned about custom TDFs being more expensive would be willing to explore the benefits of a custom TDF to see if they outweigh the costs.[1]

[1] Small base

## CONCLUSION

Stable value is an important component of DC plans. With approximately $902 billion invested in stable value assets, it is the only capital preservation option designed specifically for DC plans and the only investment option that enables participants to transact at "book" value regardless of the market value of the underlying securities. Book value, also called contract value, means the contributions made, plus accrued interest, minus previous withdrawals or transfers. For 45 years, stable value funds have performed exceptionally well in all market conditions and have provided participants with a safe haven in times of significant market volatility. In prior periods of market volatility, and both rising and falling interest rates, this asset class has performed as designed and consistently delivered on its primary DC plan investment objectives: capital preservation with a reasonable rate of return. With eight in 10 plan sponsors offering stable value as a capital preservation option, stable value will continue to play an important role in helping participants achieve the greatest total return for their retirement savings consistent with protection of principal.

For the large majority of plan participants invested in TDFs, which are professionally managed asset allocation portfolios that are designed to take the guesswork out of investing and encourage investors to stay invested for the long term, it is important that plan sponsors ensure that these participants will be able to balance investment growth with protection from market volatility. While off-the-shelf TDFs have been the most popular version, custom TDFs may be better suited to offer solutions that help mitigate the impact of volatility. With a quarter of advisors considering recommending or constructing custom TDFs for their plan sponsor-clients, and over half of plan sponsors without a custom TDF saying they would be motivated to consider a custom TDF based on their advisors' recommendation, custom TDFs are likely to become increasingly more prevalent in the future.

Regarding the impact of market volatility, more than half of plan sponsors and six in 10 advisors are very concerned about future market volatility impacting plan participants' retirement outcomes. Half of plan sponsors and seven in 10 advisors believe that market volatility is a top concern of plan participants. To mitigate the effects of volatility, plan sponsors and advisors are interested in adding features to TDFs that significantly lower volatility while maintaining returns or, conversely, enhancing returns while maintaining volatility. When given specific examples of how this works in practice, interest grows considerably. For example, if the TDF provider could utilize a solution that generates net returns four times more than the cost associated with delivering those incremental returns (e.g., 60 basis points enhanced net returns for a cost of 15 basis points) while keeping volatility constant, 89% of plan sponsors and 97% of advisors would be interested in this feature. There is also significant interest — 86% of plan sponsors and 94% of plan advisors — in a feature that could maintain comparable returns, net of fees, while reducing volatility by approximately 40%. By having their TDF providers adopt volatility reduction features, plan sponsors and their participants will be better positioned in retirement.

Stable value will continue to be a mainstay of DC plans. And, as the DC plan marketplace has moved to more of a set-it-and-forget-it approach with TDFs, so too has the ability for the longstanding volatility smoothing principles of stable value to be applied in creative ways for those TDFs. This approach enables TDF providers to optimize the risk/return profile of their TDFs for the benefit of plan participants. Whether stable value is used as a standalone DC plan capital preservation option or as a tool to manage volatility in target date funds, one thing is certain: DC plan participants will be well positioned to achieve retirement income security.

## METHODOLOGY

MetLife commissioned Greenwald Research to conduct surveys of plan sponsors, advisors and stable value fund providers between June and October 2021. A total of 222 interviews were completed among plan sponsors who offer a 401(k), 457 or 403(b) plan. Assets under management for plans included in the study ranged from under $10 million to over $1 billion. Each respondent had to work for a company that offers a DC plan with TDFs or target risk options, offer a capital preservation option, and have at least a moderate amount of influence over decisions regarding stable value or related funds for their company's defined contribution plan(s). Online surveys were also completed by 49 DC plan advisors and 11 stable value fund providers.

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