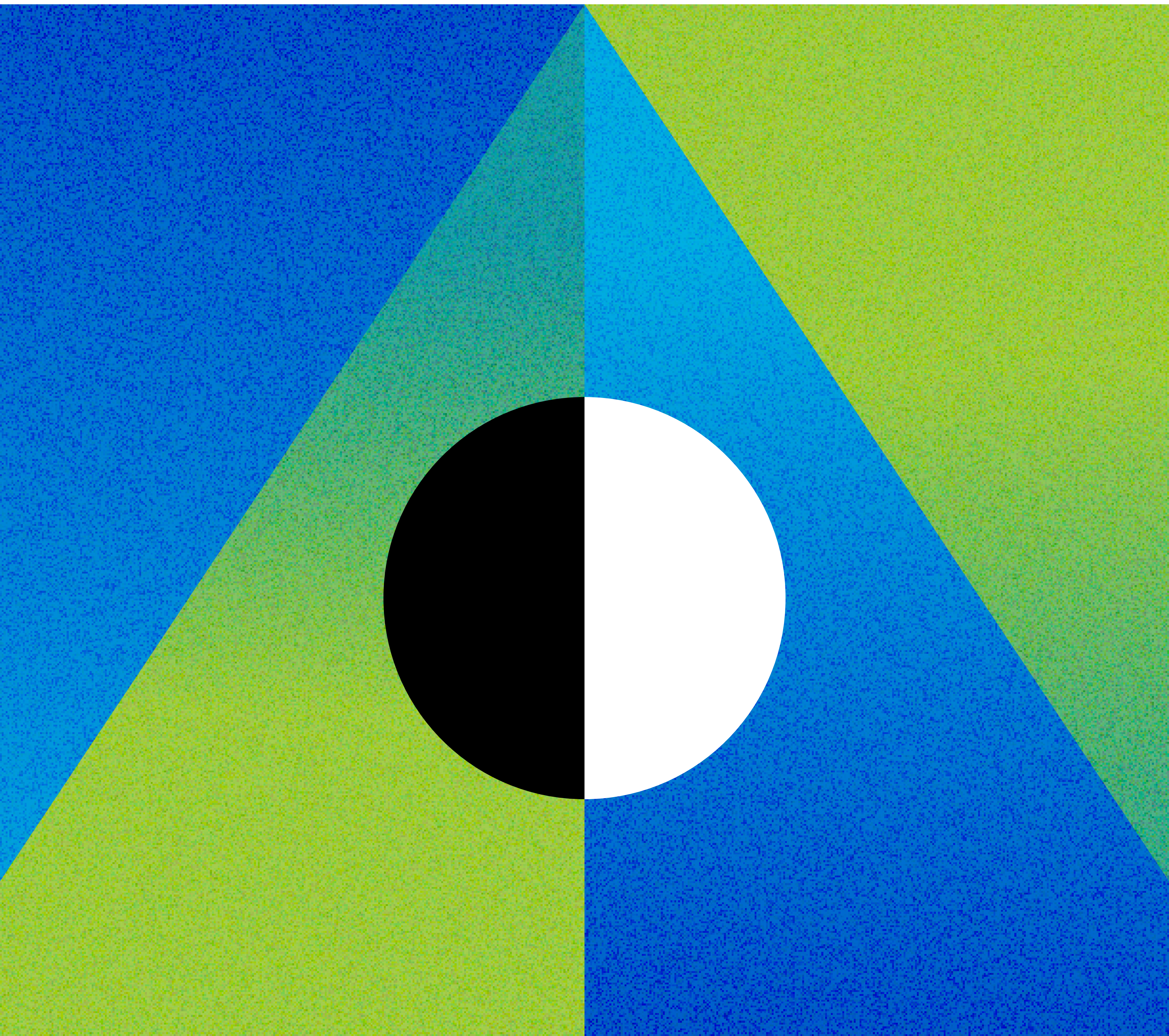
2024 Stable Value Study

How historical performance shapes plan sponsor commitment



Introduction

Stable value has been a mainstay in defined contribution (DC) plans for nearly 50 years. The only capital preservation option designed specifically for — and only available within — qualified retirement plans, stable value offers safety and stability for DC plan participants.

Stable value funds invest in intermediate duration fixed income investments such as corporate and government bonds along with a stable value contract from either an insurance company or other financial institutions, such as a bank. Known as a wrap, this contract guarantees the principal and accumulated interest for plan participants. Stable value enables participants to transact at book/contract value for participant-initiated transactions even if the underlying investments decline in value. Rather than experiencing the daily market volatility of a regular bond fund, for example, stable value funds smooth out this volatility by gradually reflecting this natural underlying volatility in the fund's guaranteed credited rate over time. It, thereby, offers participants consistent, predictable growth over the long term by preserving the value of a DC participant's retirement savings and protecting their assets from market losses. Although the recent performance of stable value has lagged that of money market, stable value has historically given plan participants significantly greater returns than money market funds with lower volatility.

As one of the leading issuers of stable value solutions, MetLife believes it is important to continually assess the attitudes of plan sponsors and their advisors toward stable value as a capital preservation option. Our 2024 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. Additionally, the study explores stable value's potential to optimize returns while minimizing volatility in target date funds (TDFs), as they increasingly dominate DC plan investment line-ups.

This study represents the findings from the sixth wave of MetLife's Stable Value Study and probes on the following:

- How plan sponsors access stable value options
- Stable value's performance and how this compares to other capital preservation options
- Steps taken to manage target date fund volatility
- Stable value as a mechanism for smoothing out volatility in TDFs, including custom TDFs

Key Findings

Taking a Long View on Stable Value Solutions

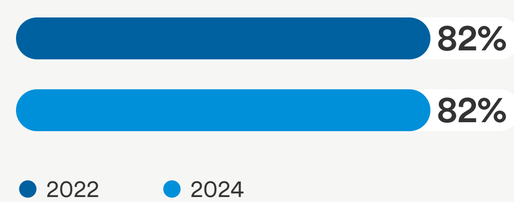
Majority of Plan Sponsors Offer Stable Value as a Capital Preservation Option

Stable value funds represent over $882 billion[1] in 401(k), 457, and 403(b) retirement plan assets. Today, eight in 10 DC plan sponsors (82%) currently offer stable value as a capital preservation option — a percentage that held steady since MetLife's 2022 Stable Value Study.

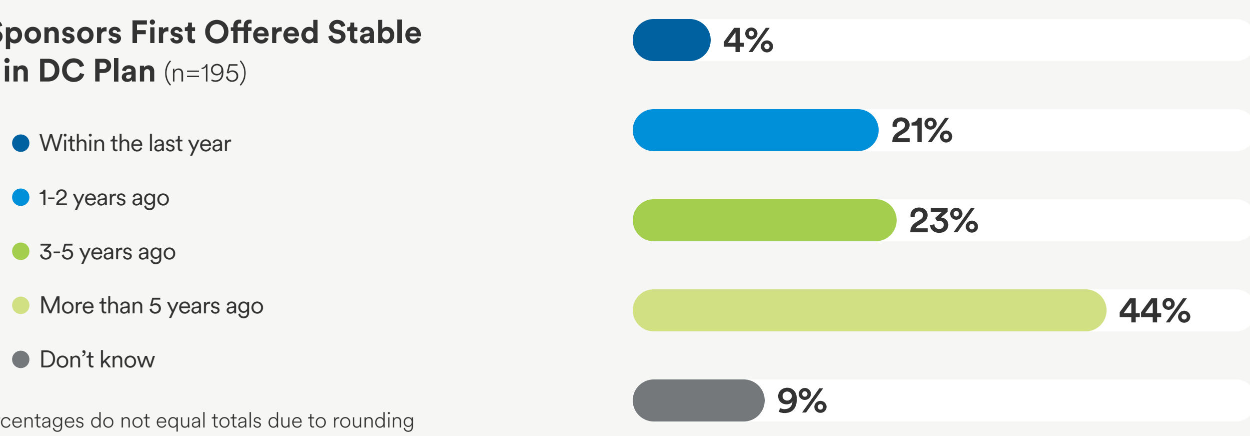
The large majority of plan sponsors (87%) have offered stable value options for more than a year, with two in three offering this solution for at least three years (66%).

Nine in ten plan sponsors (92%) are not planning to make any changes to their stable value offering.

Prevalence of Stable Value in DC Plans
(n=222, n=238)



Plan Sponsors First Offered Stable Value in DC Plan (n=195)



Note: Percentages do not equal totals due to rounding

[1] Stable Value Investment Association, Stable Value Quarterly Characteristics Survey, Q4 2023.

DC Plan Advisor Recommendations Carry Significant Weight

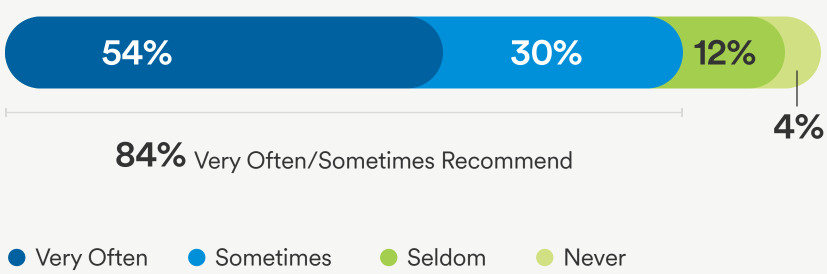
Stable value provides DC plan participants a capital preservation option that offers earnings stability and liquidity, while delivering a guarantee of principal and interest. Most plan sponsors added their DC plan's capital preservation option(s) because they were recommended: 84% of plan sponsors say stable value was recommended as a capital preservation option by their DC plan's investment or financial advisor vs. 78% of plan sponsors who say money market was recommended by their DC plan's investment/financial advisor.

Stable value was also recommended to plan sponsors by their recordkeeper or third-party administrator (TPA), according to 53% of plan sponsors, compared to 43% of plan sponsors who say money market was recommended by their recordkeeper or TPA.

Plan advisors say they have historically recommended stable value as a capital preservation option to their clients (84%) compared with only 66% who recommend money market.

Advisors: Frequency of Recommending Stable Value

(n=50)



Stable Value Recommended by Plan Advisor

(n=195)

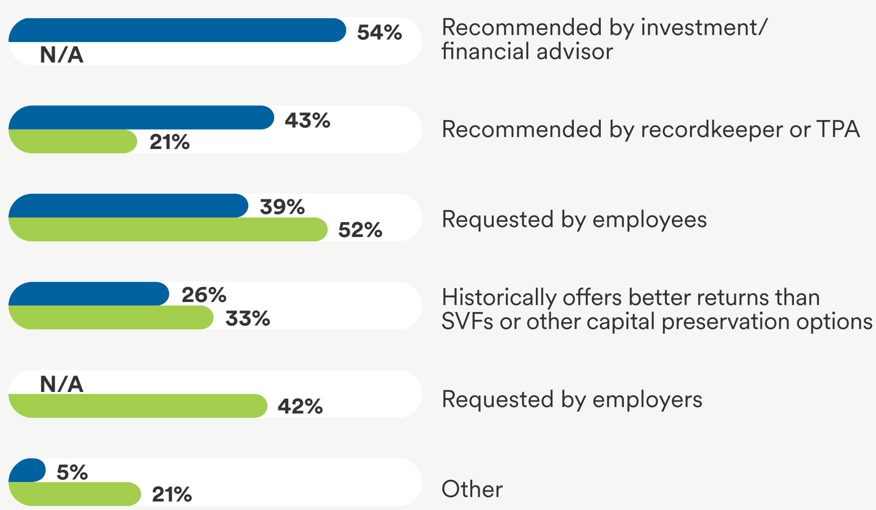
Money Market Recommended by Plan Advisor

(n=212)

So, what are the top reasons that stable value and money market are recommended by advisors? Nearly eight in ten advisors (76%) say the top reason for recommending stable value is that it historically offers better returns than money market or other capital preservation options, while the top reason advisors recommend money market is because it is requested by the company's employees (52%).

Reason for Offering/Recommending Stable Value
(n=195, n=42)

Reason for Offering/Recommending Money Market
(n=212, n=33)

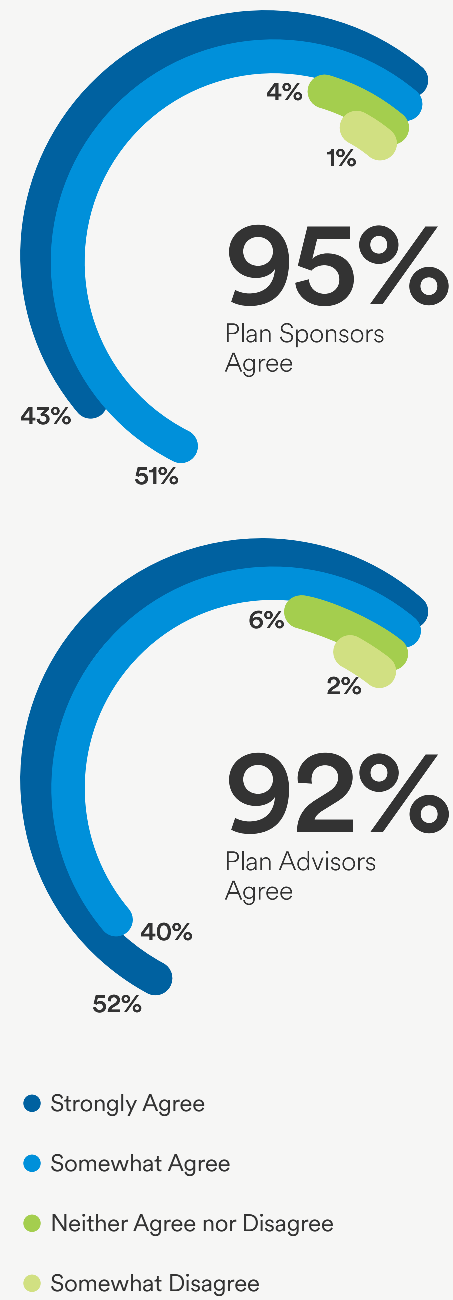


Plan Sponsors and Advisors Appreciate the Long-term, Historical Performance of Stable Value

Over the last few years, as the Federal Reserve has raised interest rates to combat the highest inflation in decades, it has created an inversion of the yield curve. As a result, money market funds have had higher yields than stable value because they have closely followed the federal funds rate. Stable value funds, on the other hand, which invest in high-quality, short- to intermediate-term bonds, are generally a longer-term investment — a value proposition that plan sponsors understand and appreciate.

Nine in 10 plan sponsors (95%) and advisors (92%) say stable value funds are valuable to plan participants seeking a safe haven, especially those who are interested in maintaining their principal.

Stable Value Funds Valuable to Plan Participants Seeking a Safe Haven
(n=238, n=50)



Note: Percentages do not equal totals due to rounding

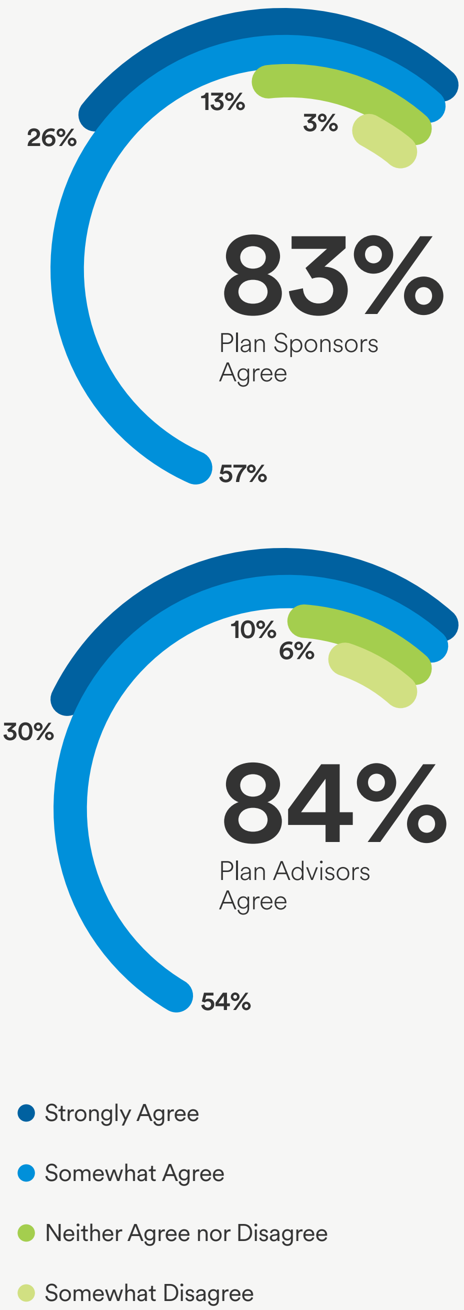
At the same time, 83% of plan sponsors and 84% of advisors view stable value as a good capital preservation option for their DC plan(s) because of its long-term, historical performance versus money market funds.

And, although money market may currently have a higher yield than stable value, 61% of plan sponsors believe that, as interest rates begin to normalize, they do not expect that to last — a percentage that jumps to 83% for the largest DC plans. Three in four advisors (74%) also don't expect money market's higher crediting rates to last.

While they wait for stable value crediting rates to increase, plan sponsors are interested in exploring other ways to generate additional yield for their stable value solutions. For example, if their plan advisor recommended incorporating a 10% allocation into their current stable value offering to generate additional yield, plan sponsors would be most interested in high-yield (60%) and equity investments (56%).

Stable Value Funds Good Capital Preservation Option Due to Long-term, Historical Performance

(n=238, n=50)



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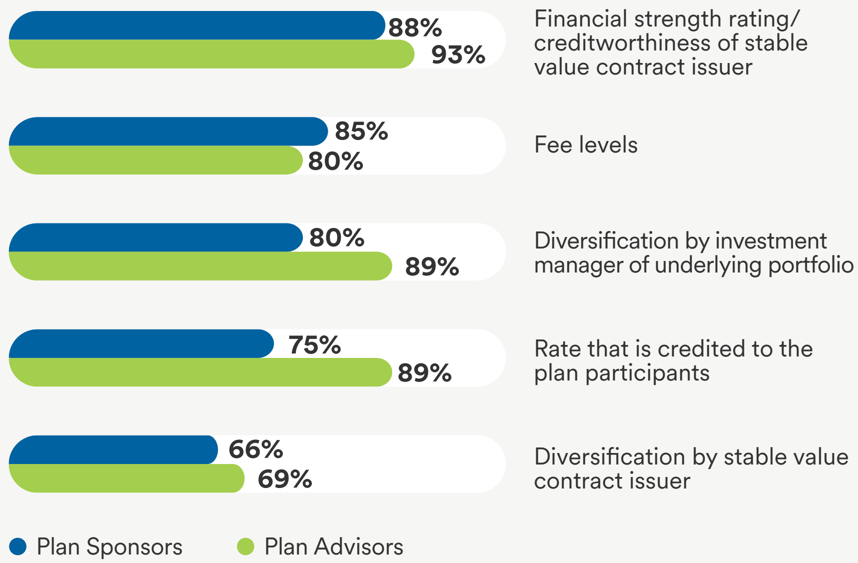
Insurer's Financial Strength Tops the List When Recommending, and Selecting, Stable Value

When considering which stable value solution to recommend, advisors highly rank the following three factors: financial strength rating/ creditworthiness of the stable value contract issuer(s) (93%), diversification by investment manager(s) of the underlying asset portfolio(s) (89%), and rate that is credited to the plan participants (89%).

When selecting a stable value fund, financial strength also tops the list for plan sponsors (88%), followed by fee levels (85%) and diversification by investment manager(s) of the underlying asset portfolio(s) (80%).

Important Factors when Considering Stable Value Solutions

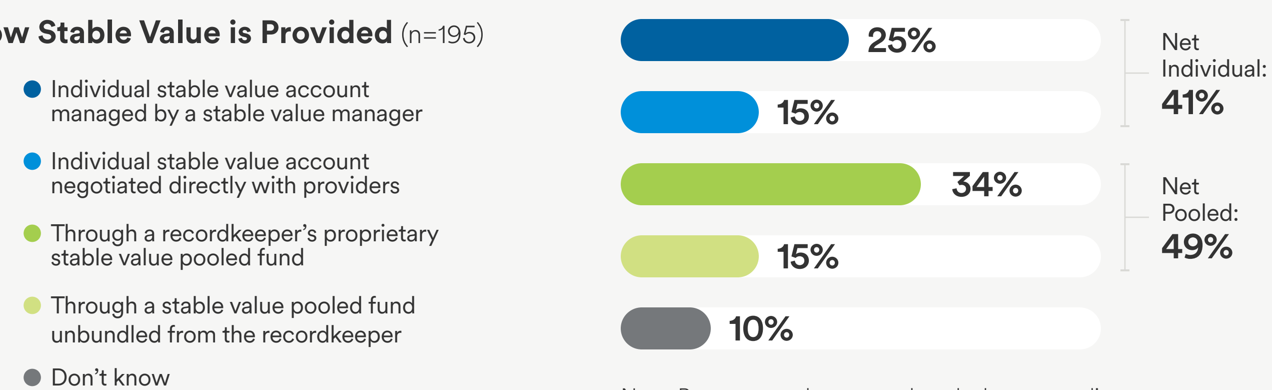
(n=195, n=45)



Stable Value Offered in a Variety of Ways

Plan sponsors say that the stable value option in their DC plan is offered through a recordkeeper's proprietary stable value pooled fund (34%), with an individual stable value account managed by a stable value manager (25%), and with an individual stable value account negotiated directly with providers or through a stable value pooled fund unbundled from the recordkeeper, 15% each, respectively.

How Stable Value is Provided (n=195)



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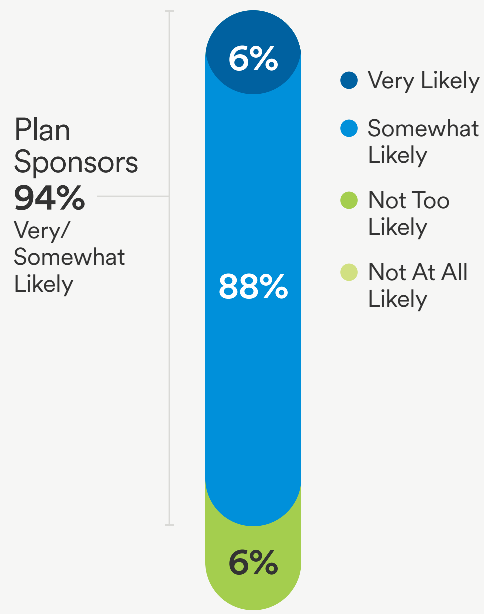
Stable Value Collective Investment Trusts Would Be Strongly Considered if 403(b)s Could Invest in CITs

Stable value is increasingly offered in collective investment trusts, also known as CITs, a type of tax-exempt pooled investment vehicle. CITs generally consist of assets pooled from certain retirement plans, such as 401(k) or other types of government plans.

Though not yet available in 403(b) plans, if securities law is amended through regulations so that CITs become a permissible investment for 403(b) plans, 76% of plan sponsors would likely invest in CITs. And, if they did invest in CITs for their 403(b), 94% of plan sponsors would consider a stable value CIT as their capital preservation option and 92% of advisors would recommend them.

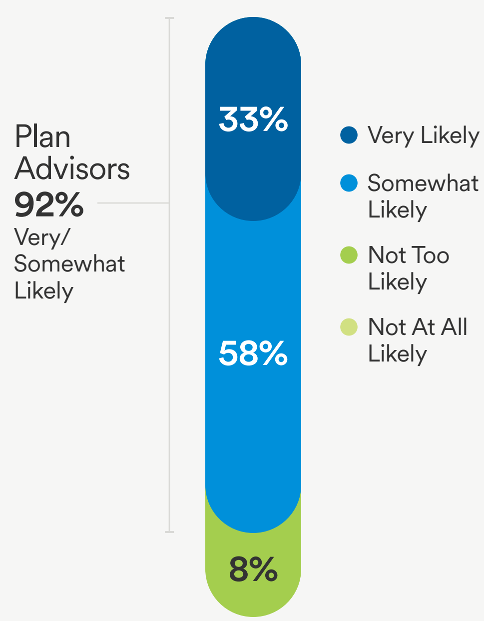
Likelihood to Consider a Stable Value CIT

(Plan sponsors, have a 403(b) plan and likely to invest in a CIT, n=16*)



Likelihood to Recommend Investing in a Stable Value CIT

(Plan advisors, have 403(b) plan clients and likely to recommend CIT, n=24*)



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** Small sample sizes; should be viewed as directional only*

Minimizing the Impact of Market Volatility

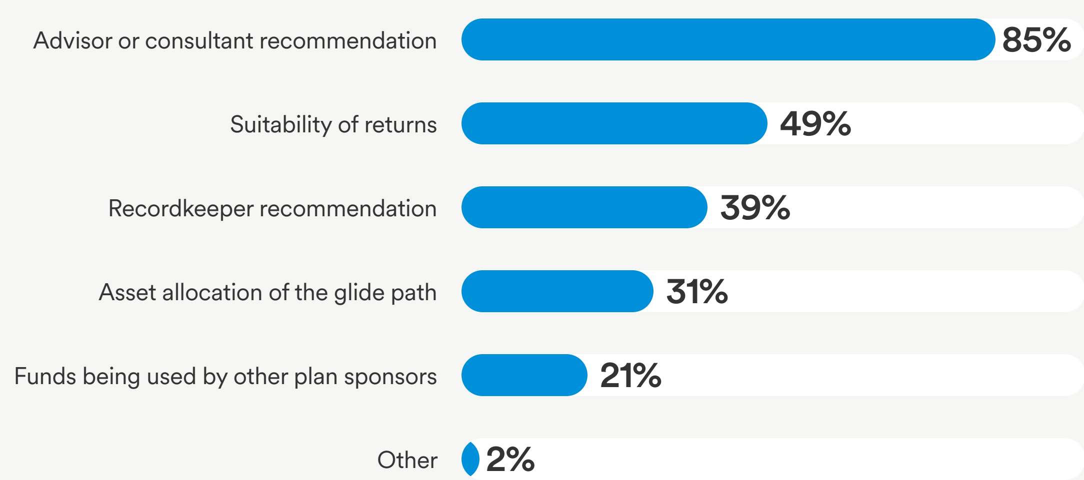
More Plan Sponsors Offer TDFs as a Result of an Advisor Recommendation

Target date funds, which are now very prevalent in DC plans, take retirement investment decision-making out of the hands of DC plan participants by using a set-it-and-forget-it approach of a professionally managed, investment allocation/ glidepath. Most plan sponsors (85%) say they started offering a TDF because it was recommended by their advisor or consultant. Only half of plan sponsors (49%) offer TDFs because of the suitability of their returns.

Plan Sponsors and Advisors Not Completely Aligned on TDF Portfolio Allocations

In the years approaching retirement, TDFs typically shift the allocation of equities to an increased amount of fixed income so that plan participants will be insulated from excessive losses in their portfolio near retirement. Given their concerns about the impact of market volatility on plan participants, plan sponsors and advisors were asked if TDF portfolios should be (i.e., 50% equity/50% fixed income), more aggressive, or less aggressive for various participant categories.

How Sponsors Select TDFs for Plans (n=238)

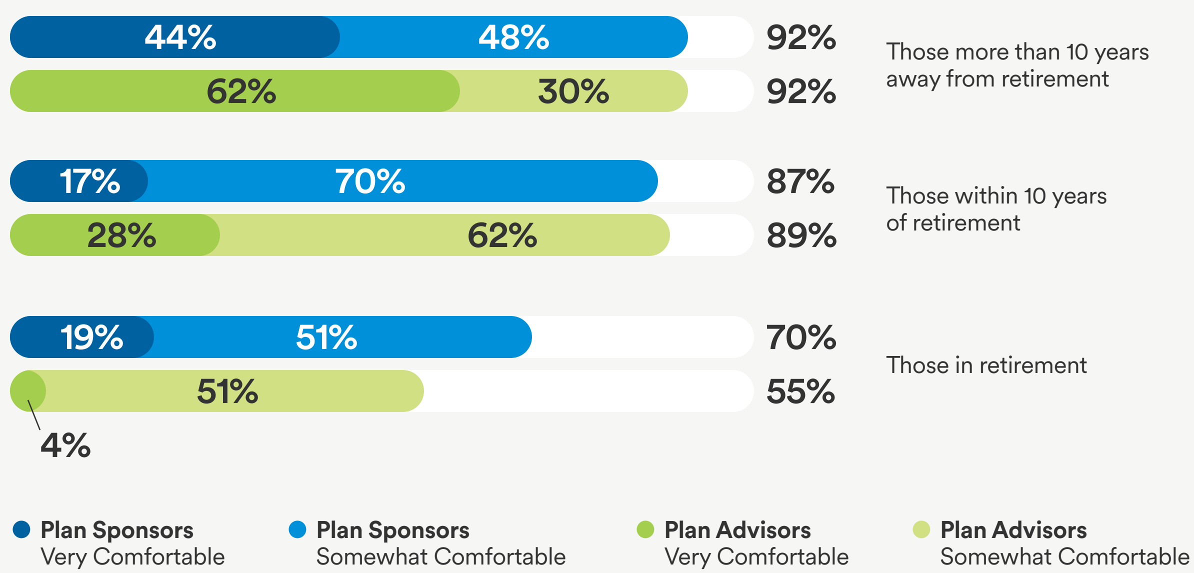


Note: Percentages do not equal totals due to rounding

For those within 10 years of retirement, there appears to be a disconnect because 24% of plan sponsors believe the allocations should be more aggressive than 50/50, whereas nearly double the percentage of advisors (46%) think it should more aggressive than 50/50. And, for those in retirement, there appears to be agreement with 70% of plan sponsors and 60% of advisors saying that portfolios should be less aggressive than 50/50.

For those more than 10 years from retirement, 92% of plan sponsors and an equal percentage of advisors are comfortable with their TDFs' suitability of market volatility. Similarly, for those within 10 years of retirement, in terms of their TDFs' suitability of market volatility, 87% of plan sponsors and 89% of advisors are comfortable with the volatility. However, for those already retired, the percentage of plan sponsors and advisors who think TDF volatility levels are suitable drops to 70% and 55%, respectively. Looking at the chart below, it is clear that those plan sponsors and advisors who are the most comfortable (i.e., "very comfortable") with their TDFs' suitability of market volatility are for the cohort furthest from retirement. Conversely, only 4% of advisors and 19% of plan sponsors are "very comfortable" with their TDFs' suitability of market volatility for those in retirement.

Comfort with Suitability of Volatility of their TDFs (n=220, n=47)



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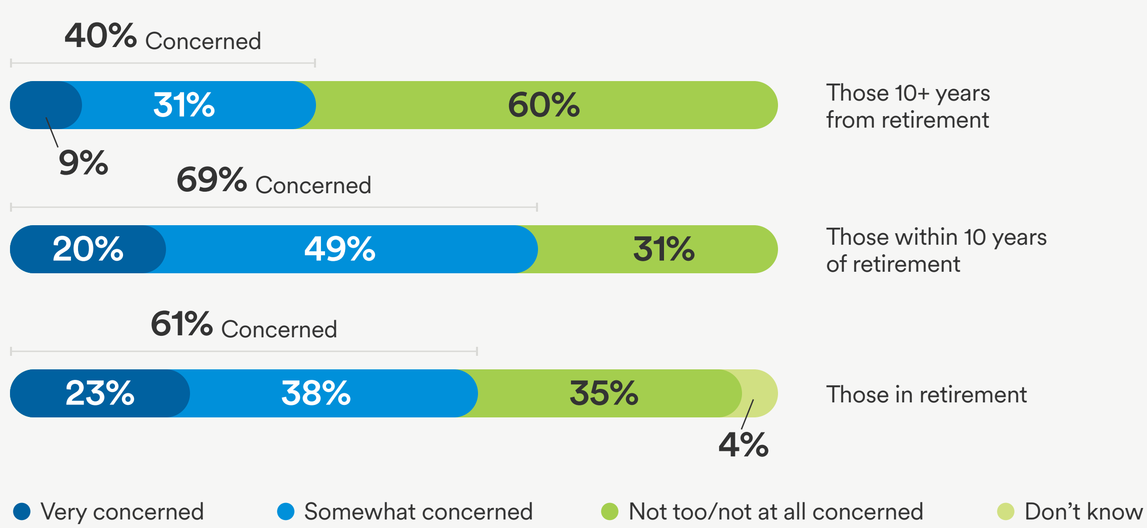
Participants' Ability to Weather Market Volatility is a Concern

Those already in retirement are typically the most vulnerable to the impact of market volatility as they try to balance investment growth with market performance, while they draw down their assets. Older workers, particularly those within 10 years of retirement, can also be significantly negatively impacted by volatility because of the shorter time horizon they have than younger workers to recover from losses in their retirement savings.

Even though they indicate that they are largely comfortable with the suitability of volatility in their TDFs, 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. Plan sponsors are most concerned about the impact of market volatility on those within 10 years of retirement (69%), followed by concerns for retirees (61%). They are much less concerned about market volatility impacting those more than 10 years away from retirement (40%).

While nine in 10 plan sponsors (92%) believe their company's retirement plan has sufficient investment options to help mitigate market volatility, only 72% of advisors believe that to be the case. Where they are more closely aligned is that 90% of plan sponsors and 90% of advisors believe plan participants need more education around how to handle market volatility.

Concern Around Participants' Ability to Weather Impact of Market Volatility (n=238)



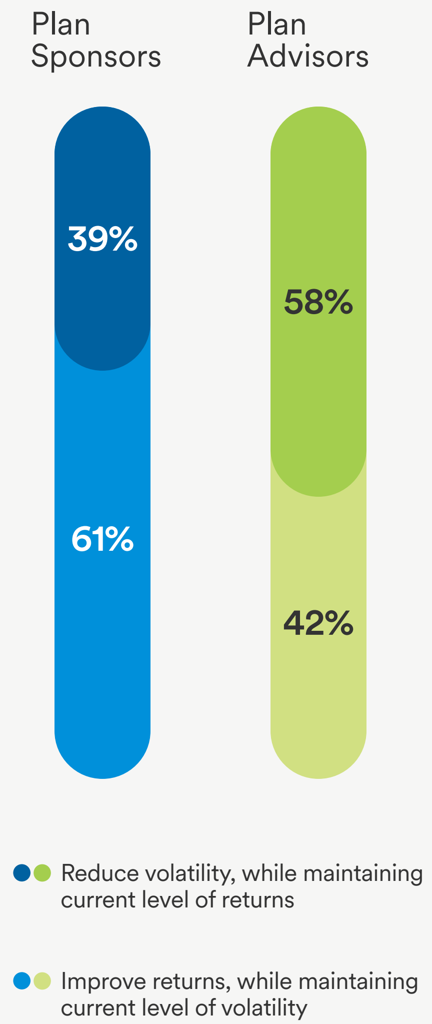
Growing Interest in TDF Volatility Management Strategies

With DC plan assets increasingly being invested in target date funds, ensuring that TDF investors' savings are adequately protected from market volatility is critical to retirement income security. While only 12% of plan sponsors to date have implemented investment strategies to manage the impact of market volatility in their TDFs — these strategies range from diversification of asset classes to the addition of other investment options — there is growing interest in these types of strategies. Today, 37% of plan sponsors say they are considering adopting strategies to manage volatility, up significantly from 8% of plan sponsors interested in volatility management strategies in our 2022 study.

There are new solutions in the retirement marketplace that apply the long-standing volatility smoothing principles of stable value in creative ways for TDFs. These solutions can significantly lower volatility while maintaining returns or, conversely, enhance returns while maintaining volatility. Both enable plan sponsors to optimize the risk/return profile of their TDFs for the benefit of plan participants.

If choosing between two options, plan sponsors would rather improve returns, while maintaining the current level of volatility (61%) than reduce volatility, while maintaining the current level of returns (39%). Pointing to another disconnect between these two audiences, looking at this broadly, advisors would rather reduce volatility, while maintaining current level of returns (58%) than improve returns, while maintaining current level of volatility (42%).

TDF Providers: Volatility vs. Returns
(n=238, n=50)

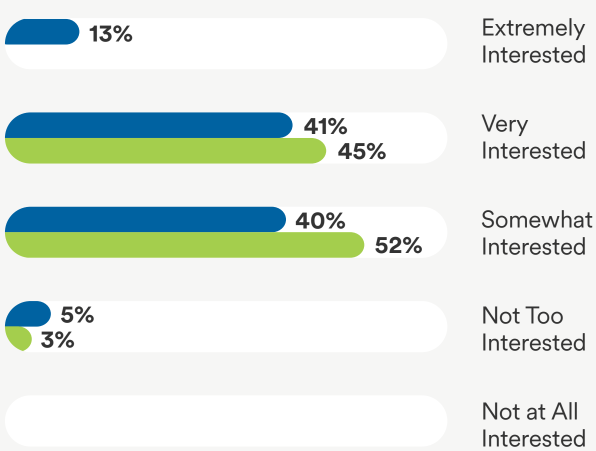


When given a more specific example of how this works in practice, interest grows considerably and the gap between plan sponsor and advisor perceptions closes. For example, among those interested in maintaining returns, if the TDF provider could deliver comparable returns, net of fees, while reducing volatility by approximately 40% for certain vintages, 95% of plan sponsors would be interested in this feature, including 54% who would be extremely/very interested; 97% of advisors are interested, including 45% who are extremely/very interested. Plan sponsors are significantly more likely than in our 2022 study to be at least very interested (54% vs. 40%).

Similarly, if the TDF provider could generate net returns four times more than the cost associated with delivering those incremental returns while keeping volatility constant (e.g., 60 basis points enhanced net returns for a cost of 15 basis points), 94% of plan sponsors would be interested in including this feature, including 54% who would be extremely/very interested; 95% of advisors are interested, including 48% who are very interested. Plan sponsors are significantly more likely than in 2022 to be at least very interested (54% vs. 37%).

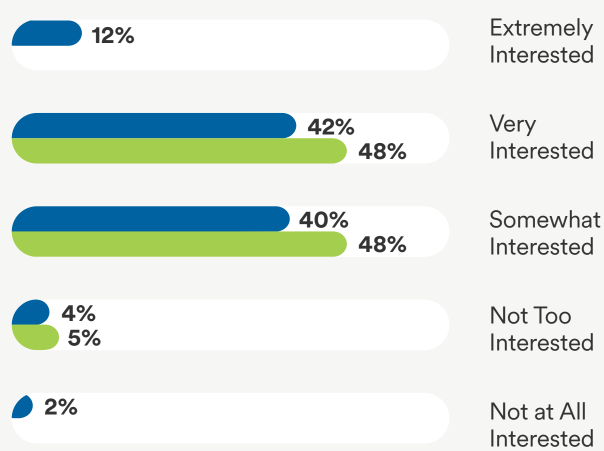
Interest in Volatility Management Features for TDFs (n=92, n=29)

Delivering comparable returns, net of fees, while reducing volatility by approximately 40%



Interest in Volatility Management Features for TDFs (n=146, n=21)

Generating net returns four times more than the cost associated with delivering those incremental returns while keeping volatility constant



Note: Percentages do not equal totals due to rounding

● Plan Sponsors ● Plan Advisors

Interest in Custom TDFs Driven by Plan Size and Assets Under Management

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…".[2] 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.

While very few plan sponsors overall offer, or have considered constructing, a custom TDF for their plan (16%), that percentage rises to 25% for those with 5,000 or more plan participants.

The primary reasons for offering a custom TDF, according to plan sponsors, is that it allows companies to meet the needs of their unique participant population/demographics, allows them to offer best-in-class investments and enables better retirement outcomes. Advisors, on the other hand, believe that custom TDFs allow their clients to offer best-in-class investments, meet the unique needs of their participants and offer a better cost structure, in that order.

Among those who do not yet offer a custom solution, 58% of plan sponsors would be willing to explore the benefits of a custom TDF to see if they outweigh the costs, including 23% who would be very willing. As another indicator of the advisor's influence in the DC space, the biggest motivator to consider a custom TDF would be a recommendation from the plan provider or plan advisor, according to 63% of plan sponsors, followed by the ability to lower volatility 40% without sacrificing returns for applicable vintages (46%).

Advisors who do not recommend custom TDFs say they are satisfied with the off-the-shelf TDFs in place with their clients (58%). However, eight of the 10 advisors (80%) whose clients do not yet offer custom TDFs, and view them as too expensive, are willing to explore the benefits of a custom TDF for their clients if they outweigh the costs.

[2] "Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries," U.S. Department of Labor, Employee Benefits Security Administration, February 2013.

Conclusion

With few companies expecting to make any changes to their stable value offerings, it is clear from our research that plan sponsors — and their advisors — are staying the course with this capital preservation option. They recognize the long-term, historical performance of stable value and the role it plays as a safe haven for DC plan participants, especially those who are interested in maintaining their principal. It is the safety and stability of stable value funds that have made them a consistently popular choice for plan participants — in all market cycles. And, as interest rates begin to normalize, we expect to see stable value credited rates increase and, once again, surpass the returns of other capital preservation options.

Recent market volatility has highlighted a potential gap in the market that could be filled by a TDF solution that allows for volatility smoothing for a portion of the fund assets, particularly for investors who are near or in retirement. While only a small percentage of plan sponsors have implemented investment strategies to manage the impact of market volatility in their TDFs, there is growing interest in new strategies coming to market — particularly for those approaching or already in retirement. One such strategy for custom TDFs uses the long-standing principles of stable value to reduce the fund's volatility by blending the performance of its "wrapped" assets with "unwrapped" assets. By wrapping the fixed income and a portion of the equities within the glidepath, a portion of the participant's balance accrues based on a crediting rate formula that improves volatility characteristics by smoothing the performance of these assets over time.

Whether including stable value as a capital preservation option in a DC plan — or leveraging the principles of stable value in new and creative ways – the outlook for the future of stable value remains strong. Key for plan sponsors and advisors is to remain focused on the value of a well-designed stable value program for the benefit of participants to ensure that stable value continues to work as designed for many years to come.

Methodology

MetLife commissioned Greenwald Research to conduct surveys of plan sponsors and advisors between February 26 and March 21, 2024. A total of 238 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 DC plan(s).

Online surveys were also completed by 50 DC plan advisors who have worked as a plan advisor for at least three years and have clients with DC plans that currently offer capital preservation options.

To learn more about the benefits of stable value, visit www.metlife.com/stablevalue

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