Comparing Stable Value Funds and Insurance Company Products

Plan sponsors may want to consider some key structural features.

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Stable value strategies can be accessed through various investment vehicles offered both by insurance companies and by asset managers. The most common structures are insurance company general and separate accounts and portfolios managed by asset managers, which can include both separate accounts and common trust, or pooled, funds.

We believe plan sponsors and their consultants or financial professionals should consider a number of key structural features when evaluating stable value products. These include:

- Asset ownership,
- Contractual terms,
- Exit provisions,[1]
- Investment guidelines,
- Fees and crediting rate[2] disclosures,
- Management of the portfolios underlying the principal guarantee, and
- Diversification of the principal guarantee.

Regardless of the investment vehicle, investors also need to assess not only the creditworthiness and/or capabilities of the insurance company or asset manager, but also some key structural differences between pooled funds and insurance company general accounts.

As we compare stable value products and structures, we quickly observe distinct differences in a few critical categories—such as crediting rates and portfolio durations[3]—that are the direct result of differing product structures.

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Characteristics of Stable Value Vehicles

(Fig. 1) Pooled funds and general accounts have key differences

	Investment Pooled Funds	General Accounts
Average Crediting Rate	2.12%	2.24%
Average Duration	2.78	6.49

As of December 31, 2020.
Source: Stable Value Investment Association. Based on survey data of stable value assets from participating firms.
Features and characteristics of specific products and issuers may differ significantly.

[1] Plans invested in a stable value product usually have to wait a specific period of time before exiting the product at the plan level.
[2] The interest rate applied to the book value of a stable value investment contract, typically expressed as an effective annual yield.
[3] Duration measures a bond's or bond portfolio's sensitivity to interest rate changes.

Structural Characteristics of Stable Value Vehicles

(Fig. 2) Insurer and asset manager offerings may differ notably

	Investment Pooled Funds (From Asset Managers)	**Insurance Company General Accounts**
Principal Guarantee[1] Provider(s)	Typically diversified among highly rated insurance companies and banks	Single insurance company
Ownership of Supporting Assets	Supporting assets are owned by the pooled fund for the benefit of participating plans	Supporting assets are owned by an insurance company and commingled in a general account for the benefit of its creditors, which include participating plans.
Plan-Initiated Withdrawals (Contract restrictions portability)	Withdrawals initiated by the plan typically require a 12-month notice (put notice) to receive full market value	May differ greatly depending on the structure of the product. Given their longer durations, contracts come with a variety of exit provisions, which can include out-of-pocket market value adjustments or lengthy withdrawal time frames over several years.

Source: T. Rowe Price.
There are additional differences between these products. Please refer to a product's offering document to carefully review a specific product's features, costs and risks. Some of the additional features of both products include offering daily liquidity for plan participants and capital preservation. Some differences are that a general account product is backed by the full faith and credit of the insurance company while investment managed pooled funds typically use several wrap providers (who "wrap" designated associated assets within a stable value investment option to provide book value protection for plan participants). General account products offer a guaranteed fixed rate of return while investment managed pooled funds offer a rate of return based on the performance of the underlying fixed income assets. Duration can vary for each product.
[1] Guarantees subject to the claims paying ability of the insurer.

Key Considerations Checklist

(Fig. 3) Issues to evaluate when selecting stable value vehicles

- What is the investment management arrangement; i.e., who is managing the underlying assets?
- Who are the counterparties guaranteeing principal, and what is their current credit rating?
- Who holds and owns the assets supporting the guarantee, and what are the payout procedures in the event of bankruptcy?
- What are the termination provisions; e.g., lump sum, installment over time, etc.?
- What are the fees; e.g., contract or wrap fees, management fees, termination fees, etc.?

Source: T. Rowe Price.

The average credit quality of insurance general accounts may also be lower compared with investment manager pooled funds as a result of structural differences.

As highlighted in survey data from the Stable Value Investment Association (SVIA), insurance products tended to have longer durations and correspondingly higher yields, while pooled funds tended to have shorter durations and slightly lower yields. (Duration is a measure of a bond's or bond portfolio's sensitivity to interest rate changes.)

Given that all pooled funds and insurance company general accounts are capital preservation products

that provide participants with daily liquidity, there does appear to be some trade-off between interest rate risk (i.e., duration) and plan exit provisions. Insurance products, given their longer durations, typically include a variety of exit provisions that seek to offset some of the interest rate risk borne by the insurance company. Pooled funds also have plan exit provisions (put options) that typically are 12 months or greater and are commensurate with their shorter duration.

As with any investment, it is important that plan sponsors, consultants, and financial professionals understand their investments and are comfortable with the terms and conditions of the investment vehicle and structure. When considering stable value investment options and evaluating structures, we suggest investors develop a checklist of key questions.

A simple checklist will allow defined contribution plan sponsors and their consultants or financial professionals to compare stable value products with distinct structures on a common basis. T. Rowe Price and the SVIA both offer a wealth of resources to help plan sponsors and their consultants or financial professionals equip plan participants with the tools they need to construct an informed investment strategy.

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