Retirement Income
JOURNAL

Feds Weigh Need for More Oversight of Stable Value Funds

By Editor Test *Tue, Jul 14, 2009*

The ERISA Advisory Council will look into the adequacy of disclosures to participants about stable value funds, and review the possible designation of stable value funds as QDIAs in 401(k) plans.

The Department of Labor's ERISA Advisory Council is studying the need for closer supervision of stable value funds, a core defined contribution investment option that has been shaken by recent market turmoil, Pensions and Investments magazine reported.

The council will examine stable value funds on the second day of its July 21-23 meeting and then advise the DOL's Employee Benefits Security Administration on the need for additional guidelines for the design and marketing of stable value funds to plan sponsors and retirement services providers.

In addition, the council will recommend whether additional guidance is needed to help plan sponsors and their consultants choose, value and monitor stable value funds. Individuals had about $642 billion in stable value funds through 167,000 defined contribution plans as of year-end 2008.

The recent movement into stable value funds, often from target-date funds is driving the recent discussion, said Trisha Brambley, a council member and president of RESOURCES for Retirement in Newtown, Pa.

Stable value has gone in and out of favor with defined contribution plans. The investment option accounted for 16.9% of the top 200 DC plans' average portfolio for the year ended Sept. 30, 2002, according to *Pensions & Investments* data. That percentage dropped to 12.6% in 2007, as many participants took on more investment risk and diversified into equities. Last year, however, stable value accounted for 29.4% of DC plans' average portfolio, as investors sought safety in turbulent markets.

The funds invest in a bond portfolio protected from wild swings in interest rates through contracts, or wraps, provided by insurers or banks. These wraps guarantee participants will receive the fund's book value even if the market value falls.

The market value of the underlying securities has been falling in many funds, reducing returns and pressuring wrap providers to make up the difference. Many wrap providers are limiting new business or are looking to exit the business, said Philip Seuss, a Chicago-based principal at Mercer Human Resource Consulting.

The typical wrap fee also has ballooned to as much as 20 basis points, from just six to eight basis points a year ago, he said.

The 15-member ERISA Advisory Council also will look into the adequacy of disclosures to participants about stable value funds, and weigh the possible designation of stable value as qualified default investment alternatives in 401(k) plans. The council plans to report its findings to the Department of Labor in October.