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James Roche, Standard Insurance: Tenets of Stable Value

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February 20 , 2012

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James Roche is stable asset sales director for **Standard Insurance Company's ("The Standard")** stable value products (SVPs).

His primary responsibilities include the evaluation, development, administration and distribution of SVPs. Prior to joining The Standard, Jim was the senior stable value analyst for **Westminster Consulting** and prior to that, served as the vice president of institutional stable value sales for **Prudential.**

Here, Roche walks through the key tenets behind stable value funds.

MME: Not all readers may be familiar with stable value funds. Please define what SVFs are exactly.

James Roche: A stable value fund is a conservative investment option found in more than half of defined contribution plans and is designed to deliver safety and stability by preserving principal and accumulated earnings. SVFs provide the safety and low volatility of money market funds with the higher returns that intermediate bond funds are currently returning. They are an important part of an investment menu for

participant-directed plans. The key tenets of SVFs are safety, liquidity and yield.

MME: What are the different types of stable value products?

Roche: Three common stable value products in the marketplace today include: commingled SVFs, insurance company guaranteed interest contracts and institutional separate account SVFs. Each SVF is managed in a different way.

MME: How do SVFs stay "stable" in value?

Roche: The key ways in which SVFs work to stay "stable" include:

* Fixed income management team: It should be a highly experienced team that has performed well over a variety of market cycles and has a track record of maintaining a disciplined and conservative investment approach, controlling risk and maintaining low volatility.

* Portfolio construction: The underlying investment portfolio should be a high-quality, well-diversified portfolio with sufficient scale.

* Market-to-book ratio: The market-to-book value ratio is a barometer of the financial health and stability of the fund.

* Wrap Structure: In a wrap structure, important factors include: creditworthiness of wrap providers, wrap capacity for the fund and wrap limitations.

* Insurance company guaranteed interest contract: Companies are not dependent on the capacity and/or lack of willingness from third-party wrap providers.

MME: How have SVFs fared during the recent financial crisis?

Roche: During the financial crisis, SVFs were one of the few investment options that produced a positive return. SVFs delivered on their promises in providing safety, liquidity and yield to participants. Like other investments, SVFs are not immune to current market stresses. Some of the key developments in the stable value marketplace include: wrap capacity limitations; market events trigger more conservative investment guidelines; higher book value wrap fees; new book value wrap entrants; and insurance company guaranteed interest contacts.

MME: For participants looking to select SVFs, what are the benefits and downsides to investing?

Roche: The benefits offered by SVFs are the preservation of principal and accumulated earnings, higher returns than money market funds and stability and steady growth of principal and interest.

MME: Investors are more cautious today when purchasing funds. But they also are dissatisfied with returns. Tell us more about the key qualities that would draw them to SVFs.

Roche: Because not all SVFs are the same, advisors should look for key qualities in a stable value solution that will provide participants with safety, liquidity and yield. Considered a "low risk" option, one key benefit at the participant level is the existence of some form of "principal guarantee"- a safety net in the form of an insurance guarantee.

MME: Are there minimum interest rate "guarantees"? How solid are the "guarantees"?

Roche: Insurance company SVFs offer a minimum interest rate guarantee. Under an insurance company group annuity contract, the plan receives a direct guarantee of principal and interest from the issuer, and the issuer guarantees the crediting rate will never fall below a minimum interest rate floor.

Insurance company guaranteed interest contracts offer a guaranteed rate for a specific period of time with a guaranteed minimum interest rate floor.

As an example, Standard Insurance Company maintains capital reserves more than three times the amount dictated by capital requirements. Standard Insurance Company has been making good on its promises and guarantees for more than 100 years.

MME: How does an investor figure out the strength of the provider?

Roche: Credit ratings from major agencies such as **Moody's**, **Standard & Poor's**, and **Duff & Phelps** are an excellent guide to the credit standing of investment contract issuers and any bond or mortgage investments that might be utilized in the portfolio.

When an investment contract participates in the credit risk on the underlying assets, it is important to determine what the credit guidelines and diversification policies are for the underlying assets.

MME: What is the bottom line about SVFs?

Roche: Many plan sponsors choose the safety, liquidity and yield of an SVF as a "safe" investment option for participants in their plan. While SVFs kept their promises throughout the recent financial crisis, that crisis also exposed shortcomings in some SVFs.

These shortcomings are leading plan sponsors to apply more careful scrutiny than ever before to selecting and monitoring a top-quality stable value provider for their plan's stable value option. There are key questions that sponsors and fiduciaries should ask when evaluating any SVP and its guarantees. Among them: Is stable value a core competency of the provider? and What are your company's financial strength ratings, including **AM Best**, **Fitch,** Moody's, and Standard and Poor's?