Money Market Vs. Stable Value: How They Differ (and How They Don't)

In a retirement plan investment menu, money market and stable value funds can provide retirement plan participants with conservative investment options designed to preserve an account's principal and income. There are nuances, however, in how they achieve that objective. For retirement plan fiduciaries, understanding the differences between money market funds and stable value funds is a foundational aspect of the decision-making process. Let's look at the differences—and similarities—of these two investment vehicles.

Money Market Funds

Money market funds are traditionally offered in retirement plan investment lineups because they pay modest interest and their share price (net asset value, or NAV) doesn't fluctuate. Money market funds are restricted to lower-risk, shorter-duration, and highly liquid instruments, such as bonds issued by the government or high-grade corporations. Because the investments within money market funds can be sold quickly and easily, they provide a solid option for participants who seek a low-risk, short-term, and liquid holding.

Stable Value Funds

Like money market funds, stable value funds are viewed as safe investments. Stable value funds pay interest and offer a fixed NAV. In addition, stable value solutions offer more competitive yields, have limited volatility, and have historically outperformed money market funds.

Although stable value funds also offer daily liquidity to participants, there is a critical difference that makes them potentially less liquid than money market funds when they are offered in a retirement plan. Here's why: If a retirement plan removes a stable value fund from its investment lineup and that fund's market value is less than its contract (book) value, the fund may be subject to a market value adjustment. When this happens, it can cause participants to incur a loss. To mitigate that potential loss, a plan sponsor may elect to wait for a specified period (called a "put" period—usually 12–60 months, depending on the contract) until a market value adjustment is no longer required.

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Given the similarities and differences discussed here, let's compare the respective attributes of money market funds and stable value funds:

	Money Market Funds	**Stable Value Funds**
Investments	Short-term, high-quality bonds issued by the government or corporations	Insurance or bank-backed guarantees and longer-term, high-quality bonds
Investment Objectives	Preserve principal and income	Preserve principal and income
Risk	Low risk	Low risk
Liquidity	Highly liquid	Highly liquid, but with potential restrictions
Investment Returns	Modest; typically retain NAV	Modest; typically higher than money market funds
Cost	Typically expressed as an expense ratio; based on the expenses of the mutual fund	Typically based on a spread determined by the issuing insurance company

Making the Right Choice for Your Retirement Plan

In fluctuating markets, 401(k) investors often turn to money market and stable value investments for stability. Although both options present retirement plan fiduciaries with principal preservation options for retirement plan investment menus, each possesses important structural differences. These variations generally allow stable value funds to provide higher income and returns (e.g., intermediate-term core bonds), while money market funds offer simpler, more liquid—but potentially more modest—returns.

For retirement plan fiduciaries, here's an important reminder: determining which option to include in your plan's investment menu is a fiduciary act, and factors—such as the costs and needs of your participants—should be weighed carefully. If you're uncertain about choosing investment options for your company's retirement plan, perhaps you should lean on the guidance of an expert who understands the nuances of analyzing and selecting investments and can shoulder some—or all—of your fiduciary investment duties, such as a retirement plan advisor, consultant, or third-party fiduciary.

2021 Checklist for Retirement Plan Stewards

As we usher in a new year, it's the perfect time for retirement plan sponsors and fiduciaries to reflect on all aspects of their company's retirement plan. What is working? What isn't? What improvements can be made? Below are fundamental areas on which to focus to promote good fiduciary, plan, and participant health in 2021 and beyond.

❑ **Stay current with changing regulations.** In 2020, many retirement plan regulations received a makeover (varying from temporary to permanent) as a result of two major pieces of legislation: the SECURE Act and the CARES Act. Connect with your plan's service providers to ensure that you are positioned to adopt revised regulations that could affect your organization's retirement plan.

❑ **Examine participant savings rates.** Analyze current participant balances and participation rates and compare them with historical participant benchmarks to determine whether your employees are saving enough. Pay special attention to employees who have stopped contributing to their 401(k) accounts due to the pandemic and nudge them to start saving again if possible.

❑ **Take a fresh look at your plan's design.** When was the last time you took a close look at the features and benefits of your company's plan? If it's been more than a year or two, changes may be in order. Does the plan offer automatic features (if not, you may be able to take advantage of new tax credits made possible through SECURE Act regulations)? Has the design of the plan kept up with the needs of business owners, key stakeholders, and employees? Does the matching contribution provide an adequate incentive for employees to save on their own?

❑ **Tighten up the process for investments.** Creating an investment policy statement (IPS) is the starting point for investment committees and plan fiduciaries. The selection, analysis, and, if needed, replacement of the plan's investments should follow the process prescribed by the IPS. If a reduced staff has thinned the amount of time and internal resources that can be devoted to performing investment-related oversight, perhaps a change in approach is needed. Schedule time with your plan's financial advisor to determine if a change in course is warranted.

❑ **Review plan fees and expenses.** Ongoing expense monitoring and benchmarking are vital. Plan sponsors have a fiduciary responsibility to know whether fees charged to the plan by service providers are reasonable for the services they are rendering. Most industry experts recommend that formal benchmarking take place at least every two years. Your plan advisor can help you with a fee audit.

❑ **Document.** Maintaining a well-organized 401(k) file (hard copy or virtual) of important plan documents, vendor correspondence, contracts, forms, and agreements not only helps you meet ERISA record retention requirements, but it also helps prepare you in the event of an audit.

Critical Retirement Plan Dates and Deadlines for 2021

Workplace retirement plans are governed by various dates and deadlines that all 401(k) plan administrators should be keenly aware of. Below are important dates to keep in mind in the upcoming year. Coordinate the timely completion of important retirement plan tasks with your recordkeeper or third-party administrator.

Please note: The list below is not exhaustive, and dates are based on a calendar-year plan.

January
15: Begin to prepare your plan's census data to ensure accuracy and completeness. Your plan's third-party administrator or recordkeeper will use this to perform upcoming nondiscrimination testing.
31: Form 1099-R due to participants to report 2020 distributions

March
15: Deadline for ADP/ACP corrective distributions to be processed without excise penalty
15: Fund employer contributions (for partnerships)

April
15: Deadline to distribute 2020 402(g) excess deferrals
15: Fund employer contributions (for corporations)

July
31: Deadline to file IRS Form 5500 (or Form 5558, to request an extension for filing Form 5500)

September
15: Fund employer contributions (if extension was filed)

October
1: IRS deadline to establish a new safe harbor 401(k) plan for the current calendar year
15: IRS extended deadline to file Form 5500 (for calendar year plans, if extension was filed)

November
1: Deadline to provide annual SIMPLE IRA plan notices to eligible employees (if applicable)

December
1: Deadline for providing annual safe harbor, qualified default investment alternative, and qualified automatic contribution arrangement notices to plan participants (if applicable)
31: Deadline for processing corrective distributions (excise penalty will apply)
31: Deadline for participants to take required minimum distributions

We Can Help

Contact us to learn more about money market and stable value funds, next year's checklist for retirement plan stewards, and critical retirement plan deadlines in 2021. We're ready and willing to help.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other governmental agency; although the fund seeks to preserve the value of the investment at $1 per share, it is possible to lose money. Non-bank deposit investments are not FDIC- or NCUA-insured, are not guaranteed by the bank/financial institution, and are subject to risk, including loss of principal invested.

Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the mutual fund, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

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