ask THE EXPERTS

The 411 on 401k's

Q. *What's better, money market or stable value fund?*

A. A money market fund or account holds securities that are typically ultra-short-duration or highly liquid fixed-income investments. This makes them very liquid, but the returns are very low. While money in the money market may be safe it will not provide meaningful dividends or an income stream.

Stable-value funds while offered in many 401(k) plans aren't mutual funds. Rather, they are a blend of insurance and bonds. The insurance provides principal protection and a minimum guaranteed rate of interest.

There's a trade-off for stable value's money market beating yields. Stable value funds are interest rate sensitive if shorter term bond yields rise these stable value funds have the potential to lose money.

Stable value funds are available in about half of all U.S. 401(k) plans with $809 billion in assets, according to the non-profit industry group The Stable Value Investment Association in the third quarter of 2018.

There are downsides or risks associated with stable value funds. First, they do not adhere to rigorous reporting rules like mutual funds. They do not have to report their portfolio holdings nor all related costs, which sap total returns. For instance, a stable value fund with an advertised return of 3% may only yield 2%. Insurance companies don't have to disclose the profits they earn from the spread, which is the difference between the amount insurers earn on stable value funds' assets and the payment to plan participants. Insurance firms typically make about 2% on the spread, Morningstar estimates. Their methods in disclosing fees is very inconsistent, making assessing them on an apples-to-apples basis for advisers and plan sponsors nearly impossible.

If you choose to have a stable value fund make sure it is well vetted. In February 2015, Lockheed Martin agreed to settle a class-action lawsuit for $62 million for failing to disclose high fees in its 401(k) plan that invested in a stable value fund. In all plans we recommend using an advisor that assumes ERISA 3(38) investment manager responsibility. This transfers the aforementioned liability from your company and executives to the plan advisor.

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