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MetLife Finds Move Away From Money Market Funds in DC Plans

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Fifty-two percent of defined contribution retirement plan sponsors offer money market funds as capital preservation options, down from 62% in 2015.

One year after the U.S. Securities and Exchange Commission's (SEC)'s money market fund (MMF) reform rules went into effect, there has been meaningful movement away from money market funds as a capital preservation option in defined contribution (DC) plans, with just over half of plan sponsors now offering money market as a capital preservation option (52%), down from 62% in 2015, according to MetLife's 2017 Stable Value Study.

Money market fund reform required providers to establish a floating net asset value (NAV) for institutional prime money market funds, which will allow the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets. The rule updates also provide non-government retail money market funds with new tools, known as liquidity fees and redemption gates, to address potential runs on fund assets.

MetLife found there has been growth in stable value funds, with 9% of sponsors adding stable value funds to their plans in the past two years. Among plan sponsors who are reasonably familiar with MMF reform, a clear majority (83%) feel that stable value is a more attractive capital preservation option for plan participants than money market funds, as do nearly all DC plan advisers surveyed. Even among plan sponsors familiar with the rules whose plans offer only a money market option, a majority (55%) think stable value is a better option.

Despite recognizing the attractiveness of stable value, the study found that just three in ten plan sponsors overall (31%) evaluated their use of money market funds as their plan's capital preservation option in light of MMF reform. MetLife says this indicates a continuing need for education about the rule changes and the role stable value funds can play as the capital preservation option within DC plans.

Advisers yield a great deal of influence in plan sponsors' selection of capital preservation options, with 73% of sponsors who offer stable value and 67% who offer money market saying their advisers recommended these options to them. However, there is a disconnect between the capital preservation recommendations advisers say they are providing and the actions plan sponsors are taking. According to the findings, 90% of advisers report recommending stable value very often, but 86% say they seldom or never recommend money market funds.

Another factor impacting the adoption of stable value may be plan sponsors' perceptions of its performance. Historically, stable value options have outperformed money market funds, with both higher yields and lower volatility, and have also outperformed inflation. However, just over half of plan sponsors (56%) are aware that stable value returns have outperformed money market returns over the past 15 years, while 84% did not know that stable value returns have exceeded inflation over that same period.

There is some good news regarding the perception of stable value's performance. Seven in ten plan sponsors (70%) believe that stable value will preserve its rate advantage over money market returns even if interest rates go up, and one-third who would consider eliminating money market in favor of stable value (33%) say they are motivated by stable value's better rates. For those who include stable value in their DC plans, the leading reason for doing so is because it offers better returns than money market or other capital preservation options (43%).

MetLife commissioned Greenwald & Associates and Strategic Insight to conduct the research of plan sponsors, advisers and stable value fund providers between June and August 2017. A total of 241 plan sponsor interviews were completed among plan sponsors who offer a 401(k) 457, or 403(b) plan. Telephone interviews were conducted with 10 DC plan advisers and 19 stable value fund providers.