MassMutual
Stable Value Investments

Insights

Guaranteed interest account key considerations

Massachusetts Mutual Life Insurance Co.
(MassMutual®)

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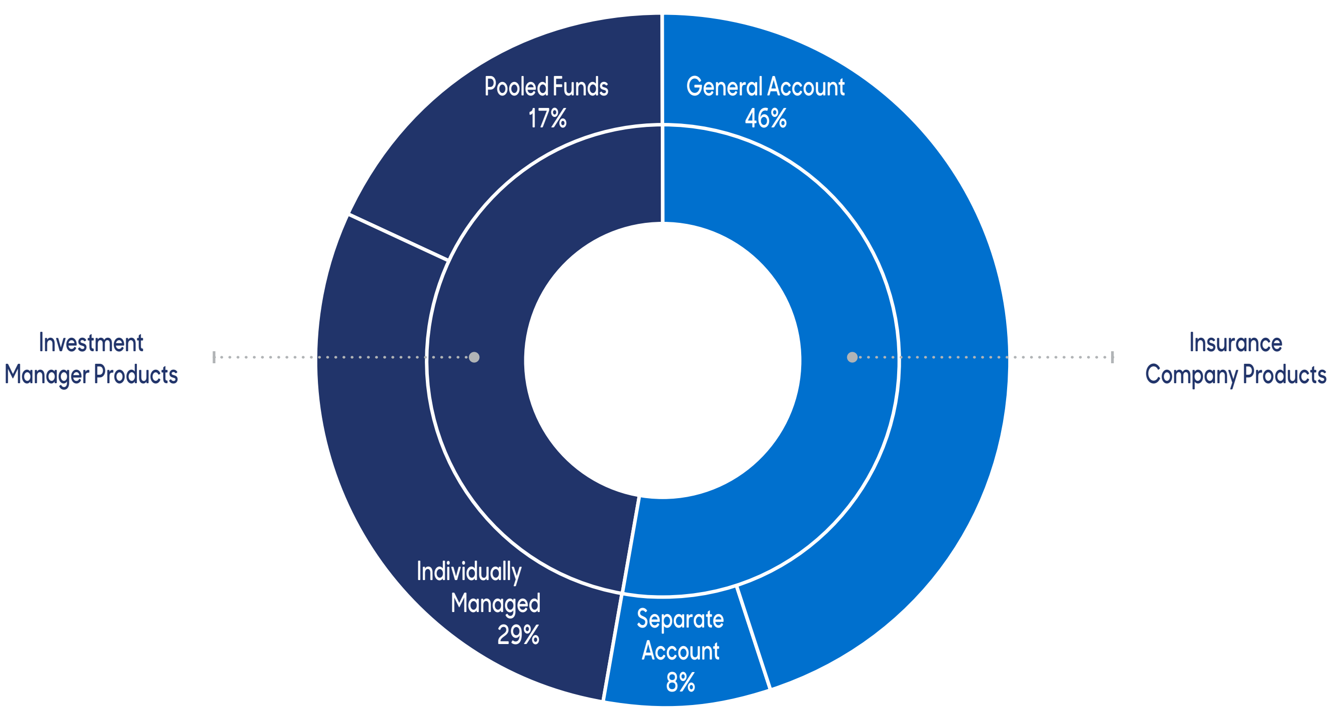
Guaranteed interest account key considerations

With $862 billion invested across a greater majority of defined contribution (DC) plans as of March 31, 2025, stable value is a popular asset class offering capital preservation, steady returns, and liquidity. General account products represent the oldest form of stable value as well as one of the largest segments with $398 billion invested or nearly 50% of the asset class[1].

The general principle behind a guaranteed interest account (GIA), a general account insurance company product, is that the assets are invested in the insurer's general account and backed by the full faith and credit of the insurance company. Key drivers of GIAs' popularity include a guaranteed declared rate, minimum floor guarantee and principal protection. With these attributes, GIAs are not designed to be fee-based pass-through products as is typical with most guaranteed products such as annuities or bank certificates of deposit (CD).

As with all investment options in DC plans, a prudent process is essential to the selection of GIA and an ongoing monitoring of the product. However, the key considerations when reviewing a GIA differ in comparison to other DC plan investment choices, especially given the insurance element of the products and related guarantees. It is important to remember that in the vast majority of DC plans, **this is the only investment that comes with an insurance guarantee**. Therefore, whether considering a GIA for a DC plan or another plan type, it's essential to evaluate an insurer's financial strength and expertise in addition to evaluating the merits of the product itself.

$862 BILLION[1] INVESTED IN STABLE VALUE AS OF 3/31/2025



Let’s review some key elements to evaluate when choosing — or monitoring — a GIA.

Insurer Review

Insurer corporate structure. Understanding the corporate structure of the offering firm and its history of delivering on its commitments during various economic cycles can be insightful. Mutual companies operate for the benefit of their members and participating policyowners — with a focus on policyowners’ long-term interests which happen to align well with the typical objectives of a GIA as a long-term core holding in portfolios. Publicly traded companies are subject to the quarterly expectations of Wall Street analysts or stockholders.

Issuer financial strength. A cornerstone for an insurance company’s ability to deliver on its commitments is its financial strength. Reviewing key financial information and the nation’s leading agency ratings on financial strength pertinent to the issuing life insurance company can help gauge the insurer’s scale and stability.

Consider reviewing the insurer’s general account and other financials. A few questions to contemplate include:

- What are the goals and the investment strategy of the insurer for its general account?
- Is the account well diversified?
- How has the account performed over multiple economic cycles?

Other financial indicators to review include the insurer’s surplus, total adjusted capital, and dividend payout history. Stepping back and taking a broad and holistic view of the insurer can aid in evaluating an insurer’s financial strength.

Experience. Experience and expertise are part and parcel in stable value as in any asset class, and it’s essential to uncover the insurer’s year's of experience in the stable value areas of the business. Consider the depth and breadth of the experience through different economic events as well as tenure and depth of the team.

Review the insurer’s stable value assets under management and consider whether the business is growing, maintaining, or contracting. Uncover what, if any, resources and services are offered to support financial advisors. For example, does the provider offer consultative and educational support? Do they have a dedicated team with subject matter expertise or shared investment resources?

Reviewing an insurer’s corporate structure, financial strength, and experience paired with a review of the provider’s service delivery model can create a holistic picture of the firm’s ability to meet its commitments.

With this backdrop, it’s time to review the merits of the product.

GIA Product Evaluation

When selecting investments and certain types of insurance products, it is helpful to understand what the rates of return have been over time even — though past performance is no indication of future results. With a GIA, the crediting rate, which is set in advance, acts as this data set. It's essential to gain a deeper understanding of the product's benefits, features, and provisions as well.

Here's a listing of considerations for key characteristics of a GIA product:

- **Product terms.** Review the contract thoroughly. Learn about how the crediting rate operates as well as the contractual liquidity provisions and restrictions, termination clauses, and more.
- **Crediting rate.** Gain an understanding on the timing of when the declared rates change, how competitive the current rates are, the track record of competitiveness of the rates over time, and the guaranteed minimums. Ask for a comparison of the GIA new money rate vis a vis comparable Treasury rates, if possible.
- **Liquidity.** In stable value products, liquidity specifically refers to the participants' ability to take money out of the contract at book value, which is essentially the invested principal plus accrued interest.

  To support benefit related activity in DC plans or certain thresholds for reallocations in defined benefit (DB) plans while managing potential downside risks associated with disbursement activity, insurers typically stipulate restrictions and exit provisions in the contracts. To avoid unexpected surprises, the plan sponsor should familiarize themselves with the exit provisions and liquidity provisions of the contract. It's essential to understand the liquidity provisions for participant-initiated events as well as plan sponsor-initiated events.

Participant-Initiated Transactions in DC plans.

Similar to other stable value products, GIA products are 'benefits responsive' meaning a participant-initiated withdrawal required to support a benefit payment such as a distribution, loan, or rebalance, will be processed at book value in most situations. Regarding asset reallocations, there are generally restrictions on transfers directly to competing funds including an equity wash provision that will restrict transfers among competing funds for a specified time period such as 60 days.

Plan Sponsor-Initiated Transactions.

Some typical terms and conditions to consider that could apply to plan sponsor-initiated contract terminations include:

- **Book value termination clause.** Review the contract to ensure that it includes a book value termination clause. Examine the terms related to number and frequency of payments as well as the intervals. For example, does the provision call for six payments over five years?

Also, find out if the contract remains benefit responsive during the termination period and if the credited rate will remain competitive during the termination period — rather than immediately going to the guaranteed minimum floor.

- **Partial or full lump sum payment option.** Identify if a lump sum payment option is available to settle the contract at termination. And, if so, does it involve a potential market value or liquidation adjustment. This adjustment is typically made to the contracts total book value (the value of aggregated contributions, accrued interest, withdrawals, and expenses) based on an estimate of the market value or estimated value of the portfolio. The proceeds paid out to the plan can be higher or lower than the book value depending on multiple factors such as prevailing interest rates or corporate spreads at the time of termination.
- **Portability.** Once the contract is liquid, how does the life insurer facilitate transfer of funds from terminating contracts? Is the GIA only available as part of a bundled arrangement with recordkeeping services? Is the contract designed to be portable for ease of administration?
- **Book Up Provisions.** As adverse market conditions can cause negative market value adjustments upon contract termination, some insurers will allow for a "book-up" when assuming a contract from another provider. In these cases, an insurer who is receiving a plan's stable value assets will take over the balance at book value with no loss of coverage to the participants but typically discount the crediting rate prospectively to account for the gap in value.

Please note, contract terminology can vary from provider to provider.

Risk

GIA offers the benefits of capital preservation, steady guaranteed income, and participant liquidity at book value that may be needed to support certain activities like benefit payments. Nonetheless, risk is an innate characteristic in investing and plan sponsors should evaluate them carefully before making a selection. Risks to consider include, and are not limited to: cash flow risk, contract risk, event risk, credit risk, default risk, interest rate risk, issuer risk, liquidity risk, manager risk, market risk, regulatory risk, and tax and accounting risk.

Summary

Stable value is a popular asset category offered in many retirement plans. It offers a balance of capital preservation, income, and liquidity. GIA, the most common type of stable value product that offers guarantees backed by an insurer, has unique points of consideration to review when exploring the solutions available.

While this is not an exhaustive list of considerations, it may be a good place to start. Here's a link to a list of **key questions to explore when evaluating a Guaranteed Interest Account offering**.

With the right tools and an understanding of how to carefully review a GIA product and contract, plan sponsors together with their retirement plan advisors can feel confident in their ability to find a suitable solution for their situation.

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[1] Stable Value Investments Association, "Stable Value at a Glance," 3/31/2025, https://**www.stablevalue.org/stable-value-at-a-glance/**.

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