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Insights

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Whether at conferences or with clients, discussions about how the interest rate environment may impact sponsor-initiated exits from general account stable value products is a common topic. Let's review this topic in the context of the ever-shifting environment and some potential options for consideration.

Why is this a hot topic?

Stable value products issued by insurers are uniquely designed for use in defined contribution and defined benefit plans. Given the extended time horizon generally contemplated in the retirement plan context, insurers typically are afforded a long-term view when constructing stable value products. Because stable value portfolios typically hold fixed-income securities, which are interest rate sensitive, interest rate volatility can have adverse effects on plan-level stable value contract withdrawals as was the case for many contracts in recent years.

However, following a peak of 5.33% in mid-2023, the Federal Reserve began a rate-cutting cycle in late 2024. As of August 2025, rates have declined to around 4.33%, with the potential of additional cuts in the second half of 2025[1,2] **This trend is helping to narrow the gap between market and book values, easing the effects of costly exit provisions for many plan sponsors.**

What are the key drivers of contractual exit provisions?

With a balanced approach offering a competitive rate of return with daily liquidity for participant-initiated events in general account stable value products, insurers may aim to manage downside risks associated with sponsor-initiated disbursement, such as in plan merger or acquisition situations, by stipulating exit provisions in the contracts. Such conditions may include liquidation adjustment formulas typically **based on the variance** between the book value, defined as the net value of contributions, accrued interest, withdrawals, and expenses — and the market value, defined as the gross value of the proceeds that could be realized on the transaction date upon withdrawal of assets from the product.

The relationship between these two figures is commonly referred to as the market-to-book ratio (M/B ratio). The formulas that drive the actual liquidation value are loosely referred to as MVAs — market value adjustments, though some stable value products offer other types of exit provisions such as book value installment payments over time.

Given the structure of certain insurance- issued stable value products through which rates can be set in advance of the crediting rate period, the effects of interest-rate movement on market values typically lag the impact on book values. **In the recent environment with swiftly rising interest rates, the variance between book values and market values expanded, respectively**, and consequently, MVA calculations have been resulting in liquidation values below book value in many cases.

When will rates drop?

While 2025 has brought new elements of uncertainty and risks to the economy including tariffs and robust immigration policy enforcement, Federal Reserve Chair Jerome Powell indicated a controlled descent is imminent stating, "the baseline outlook, and the shifting balance of risks may warrant adjusting our policy stance" during his speech in Friday, August 22, 2025.[2]

With the anticipation that the current rate environment will continue its controlled descent, plan sponsors may find it timely to revisit exit strategies. Declining rates can help bring M/B ratios in line and stable value providers may offer enhanced flexibility in exit provisions including book-ups, installment payments, or renegotiated terms.

While only time will tell, let's review how declining rates may affect stable value contract exit provisions and potential solutions.

What are some available solutions?

When a plan sponsor initiates a full or partial contract termination, such as with merger and acquisition activity, at a time when the M/B ratio (if applicable) is below 100 percent, the termination clauses of the contract may subject the disbursement to contractual liquidity and/or payment restrictions stipulated in the exit provisions. Such payment methods may include administering payment over an extended period of time, market value adjustments that may result in payments that are less than book value, or other.

While not a panacea, falling rates will likely improve the current market value adjustment (MVA) environment for many stable value customers as it should generally help shrink the gap between market and book values and long-term interest rate stability over time can offer the same — though each situation is unique.

Some stable value providers can offer what is loosely referred to as a "book-up." In these cases, an insurer who is receiving a plan's stable value assets will take over the balance at book value. In such arrangements, the crediting rate is typically discounted prospectively.

When a sponsor has a planned event that will affect their stable value contract, it's essential that they reach out to their experienced financial advisor and/or providers, as appropriate, to discuss their situation, implications, and aid in planning. Your financial advisor can work with the stable value providers to perform analyses and explore which options may be most available and appropriate given the circumstances — installment payments, disbursement at the liquidation value, potential book-ups, or other.

Summary

We are hopeful this article provided some insights into the effects of the interest rate environment on sponsor-initiated stable value exits from general account products, and solutions available to help. Together with your advisor, please feel free to reach out to us to discuss your stable value needs and our solutions.

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[1] Federal Reserve Bank of New York, Effective Federal Fund Rate Data historical search **https://www.newyorkfed.org/markets/reference-rates/effr**

[2] Board of Governors of the Federal Reserve System, "Monetary Policy and the Fed's Framework Review," August 22, 2025: **https://www.federalreserve.gov/newsevents/speech/powell20250822a.htm**

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