Innovative

MYTH SERIES

#10 WHEN TRANSFERRING SERVICE PROVIDERS, THERE ARE NO PITFALLS. PART 2 - MARKET VALUE ADJUSTMENTS AND FIXED ACCOUNTS

THE PROBLEM:

A new client engaged Innovative after they decided to transfer their current retirement plan to a new service provider. The client contacted us to assist with the RFP process and transition.

When transferring service providers, it is important to review the investments in the current plan, particularly any fixed accounts. Many fixed account and stable value funds have restrictions on a trustee moving assets. During our initial investment review, we noticed that there was an existing Stable Value Fund in the current lineup. We reviewed the Stable Value contract and determined the fund was subject to a market value adjustment (MVA), which could be triggered by any trustee directed transfer of fund assets.

A market value adjustment is assessed by the issuer when the market value of the investments in the fund is below book value. This value is calculated daily. The issuer has this clause in place to protect other investors from potential losses being realized due to a liquidation request of a plan sponsor. When an MVA is being applied, - a complete fund liquidation may result in a loss to the plan and participants - not an ideal scenario. Fortunately, a plan sponsor has the following options to lessen, or eliminate, the impact of the MVA:

- Delay the triggering event until the MVA corrects itself
- Try to move the fund "in kind" to the new record keeper
- Agree to use another Stable Value Fund offering from the same provider for the new plan and map the old fund assets into it
- Leave the Stable Value Fund with the old record keeper. With this option, a plan sponsor needs to confirm that participants will have access to the monies for loans/distribution purposes

THE SOLUTION:

After contacting the existing fund provider to review the options, we recommended that the client leave the Stable Value Fund with the old recordkeeper, open a new fund on the new platform and transfer the assets in the future when the MVA subsides. We also confirmed that the new provider could administer the fund on the old platform and make it available for participant loans and distributions. The new administrator could also have the fund information available on participant statements and plan website.

Innovative continued to monitor the situation. When the market value of the investments was above the book value, we instructed our client to liquidate the fund and consolidate the proceeds with the new recordkeeper. By handling the situation in this manner, Innovative assisted the client in moving their assets with no loss to the participants.

Selecting a recordkeeping firm is a fiduciary act. When trustees change recordkeepers, they must understand their options and act in the best interest of the plan participants and beneficiaries. Subjecting certain participants to a market value adjustment might be construed as not being in their best interest and plan sponsors should act diligently when considering the steps they take.

FAST FACTS

- Not-for-profit company
- 425 participants
- $8.5M in assets

HOW WE HELPED THE CLIENT

- Eliminated any chance a Participant could lose any money in their stable value investment during a conversion
- Protected the Plan fiduciaries from questions
- Ensured Participants still had access to their money