

BEYOND THE GLIDEPATH

Stable value's untapped potential



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Eitan is responsible for developing and executing Prudential's strategy for broadening access to stable value solutions across new and existing markets, drawing on nearly a decade of institutional retirement innovation spanning pension risk transfer, reinsurance, and defined contribution lifetime income.

Stable value has long been a trusted anchor of defined contribution (DC) plan design—reliable, well-understood, and valued for its protective risk-mitigating characteristics. Yet its full potential as a yield-enhanced, risk-managed foundation for target-date funds (TDFs) remains largely untapped. When embedded in a TDF glidepath, stable value can enable fund managers to increase usage of higher-yielding asset allocations, delivering measurably better outcomes for participants without a proportional increase in unmanaged risk.

We call this approach stable value-enhanced target-date funds.

The conventional TDF glidepath shifts steadily from equities toward fixed income as participants approach retirement—a sensible instinct, but one that trades away return potential precisely when participants most need compounding to sustain decades of retirement withdrawals.

A high-grade fixed income portfolio wrapped in an insurance contract, it smooths market value volatility, manages sequence-of-returns risk, and, critically, frees up risk budget capacity that fund managers can direct toward potentially higher-yielding allocations. The glidepath stays growth-oriented for longer, and participants reap the difference.

This white paper makes the strategic case for that better path. We explain why the approach works, address the common misconceptions that hold the market back, and present Monte Carlo simulation results that quantify the potential impact on participant outcomes. Although our analysis focuses on TDFs, the same principles may also apply to other multi-asset DC portfolios, including managed accounts and retirement spending portfolios.

Contents

The glidepath, reimagined	2
The stable value opportunity	2
Why it works: the risk budget framework	3
Six stable value assumptions	5
Simulation results: quantifying participant outcomes	6
Implementation considerations	10
The opportunity is clear	11



Stable value may offer a better path."

The glidepath, reimagined

For decades, TDFs have operated on a simple premise: the closer a participant gets to retirement, the less risk they should carry. In practice, this translates to a mechanical reduction in equity exposure paired with a corresponding increase in fixed income holdings.

The rationale is sound on its surface—equities are volatile, and a sharp downturn in the years immediately before or after retirement can materially reduce a participant's account balance.

But the traditional approach carries its own hidden cost.

Reducing risk as participants approach retirement is a prudent objective, and the conventional glidepath reflects that objective. The question is not whether to reduce risk, but how. As equities decrease and fixed income assets increase, return potential compresses alongside volatility, a trade-off that participants and plan sponsors have long accepted as the cost of prudent glidepath design. Stable value offers a way to improve that trade-off: reducing risk without giving up nearly as much return potential, which may translate directly into better outcomes for the participants who need their savings to last.

The fixed income assets that typically populate the conservative end of a TDF glidepath—Treasury Inflation-Protected Securities (TIPS), the Bloomberg U.S. Aggregate Bond Index (AGG), and similar instruments—are reliable and predictable. They carry modest yields and, under most circumstances, perform with low volatility. The challenge is that they're not uncorrelated from broader markets. A severe downturn—the kind that characterizes true economic crises—can hit these assets harder than their reputation for conservatism suggests. Stable value's wrap structure provides an added layer of protection precisely in those environments.

Stable value offers a way forward. Conventional portfolio theory holds that higher returns come only at the cost of higher risk—the two are, in most contexts, inseparable. But stable value can create a structural exception to that rule. Its insurance wrap is designed to help smooth the volatility of higher-yielding assets held within the fund itself, preventing participants from experiencing it, which may allow for meaningful allocations to return-seeking assets inside the wrap without a proportional increase in participant-level risk.

The potential result—improved returns with limited additional risk—is the kind of outcome traditional portfolio construction would suggest is difficult to achieve.

The stable value opportunity

What stable value is—and what it's not

Stable value is a high-grade fixed income portfolio wrapped in an insurance contract. The wrap contract smooths market value fluctuations, allowing participants to transact at book value rather than market value, which reduces the sequence-of-returns risk that can devastate near-retirees. It's a risk-managed growth asset. It's not merely a capital preservation tool or a cash equivalent.



Reducing risk and preserving return potential are not mutually exclusive.”



Stable value is a risk-managed growth asset and not merely a capital preservation tool or a cash equivalent.”

That distinction matters. When plan sponsors and fund managers think of stable value only as a conservative holding—something akin to a money market fund with a little extra yield—they miss its full potential. The insurance wrap transforms a fixed income portfolio into something qualitatively different: an asset that can absorb market shocks without passing them directly to participants, while still delivering yields that meaningfully exceed traditional cash alternatives.

A well-understood, DC-native asset class

One practical advantage of stable value is its long track record within DC plans. Wrap providers, fund managers, and regulators understand the product well. Book value protections are defined contractually, and the provisions governing stable value embedded in a TDF or multi-asset portfolio are established and manageable. Stable value is subject to a comprehensive regulatory framework with oversight that may include ERISA, state insurance law, banking rules, GAAP, and the tax code. This matters for plan sponsors concerned about fiduciary risk.

As an asset class, stable value has demonstrated its appropriateness as a DC investment vehicle across a wide range of market environments including severe market cycles.¹ Wrap providers are subject to rigorous oversight, providing an additional layer that further reduces uncertainty for both plan sponsors and participants.

The yield advantage

The fixed income assets that dominate the conservative portion of most TDF glidepaths offer modest and relatively predictable yields. Stable value, by contrast, has historically delivered higher yields than comparable-duration fixed income instruments²—and the wrap structure means participants capture those yields without the full market volatility that higher-yielding bonds would otherwise introduce.

When there is an allocation to higher-yielding assets inside the stable value wrapped portfolio—U.S. equities, real estate investment trusts (REITs), global private infrastructure, or other return-seeking assets—the yield advantage can be amplified substantially. The resulting product is not a simple fixed income replacement. It is a fundamentally differentiated building block that can anchor a more aggressive glidepath without exposing participants to commensurate additional risk.

Why it works: the risk budget framework

Understanding the risk budget

Every TDF operates within an implicit or explicit risk budget. Whether formally quantified or expressed as a qualitative philosophy, the risk budget guides how fund managers allocate across asset classes. Conservative holdings use a portion of that budget, and the question is always:

Are plans and participants getting adequate compensation—in the form of expected return—for the risk?



When there is an allocation to higher-yielding assets inside the stable value wrapped portfolio, the yield advantage can be amplified substantially.”

Traditional fixed income instruments are low-risk, but they aren't zero-risk—and their expected return is correspondingly modest. Stable value can carry a lower risk profile than many of the more common conservative investment choices. This is the central mechanical insight that makes stable value-enhanced TDFs work.

Freeing up room for growth

The key to maximizing this potential lies in a structural advantage that traditional standalone stable value funds may not offer. Conventional stable value funds typically hold conservative fixed income assets, in part because wrap providers must manage the risk of participant-directed trading. When stable value is embedded in a TDF or other multi-asset portfolio, the portfolio's default structure, glidepath, and automatic rebalancing may help moderate participant trading activity, potentially reducing certain behavioral risks for wrap providers.

With those risks reduced, wrap providers may have greater flexibility to support meaningful allocations to return-seeking assets—such as equities, REITs, private infrastructure, or similar investments—within the stable value structure. The wrap contract can then help smooth the volatility of those allocations at the participant level, limiting the extent to which market value fluctuations are reflected in participant account values. This combination—greater return potential supported by a volatility-smoothing wrap structure—is what may make stable value particularly powerful in TDFs and other multi-asset portfolios.

The compounding effect over time

For a participant entering a TDF at age 55 with a \$1 million balance and planning to retire at age 65 with \$60,000 in annual withdrawals, the difference between a conventional TDF and a stable value-enhanced TDF compounds meaningfully over 40 years. The simulation data we present in this paper quantifies this in detail. But the intuition is straightforward: even modest improvements in expected return, sustained over a long distribution phase, may translate into substantially higher terminal account values—which in turn translate into a greater probability that participants do not outlive their money.



Even modest improvements in expected returns, sustained over a long distribution phase, translate to substantially higher terminal account values."

Six stable value assumptions worth questioning

Several persistent misconceptions hold back wider adoption of stable value in TDFs. Let’s directly address six of the more common:

ASSUMPTION	REALITY
<i>Stable value is too expensive.</i>	The wrap contract does carry a cost premium over traditional fixed income. But the simulation data show that cost premium is substantially outweighed by the outcome improvements it delivers. Net of cost, stable value typically outperforms the cheaper alternatives it displaces. ²
<i>Stable value is too conservative for a TDF.</i>	Stable value’s structural flexibility makes it a risk-managed growth asset, not a capital preservation tool. Paired with equities or other return-seeking assets inside the wrap, it provides a reliable foundation for a growth-oriented glidepath—one that is more durable, not less ambitious.
<i>Liquidity constraints make it impractical.</i>	Participant-level and plan-level liquidity are not the same thing. Participants always retain access to their money. At the plan level, change timelines can be measured in months—a manageable operational consideration, not a structural barrier to plan liquidity.
<i>Stable value does not protect against inflation.</i>	The higher yields generated inside the wrap provide a measurable advantage over conventional fixed income in inflationary environments. Yield-enhanced stable value is better positioned to outpace inflation than the short-duration fixed income it typically displaces.
<i>Book value coverage in multi-asset portfolios is uncertain.</i>	Contractual provisions specifically define book value protections for stable value embedded in TDFs and other multi-asset portfolios. These provisions are well-understood by wrap providers with long experience structuring such arrangements, and they are no more complex than those governing standalone stable value products.
<i>Stable value is the same as cash.</i>	Cash carries no principal guarantee, no insurance wrap, and loses value to inflation without offset. Stable value’s higher average crediting rates, backed by a wrap contract, deliver significantly more long-term value. Liquidity is a feature of stable value—it is not the whole picture.

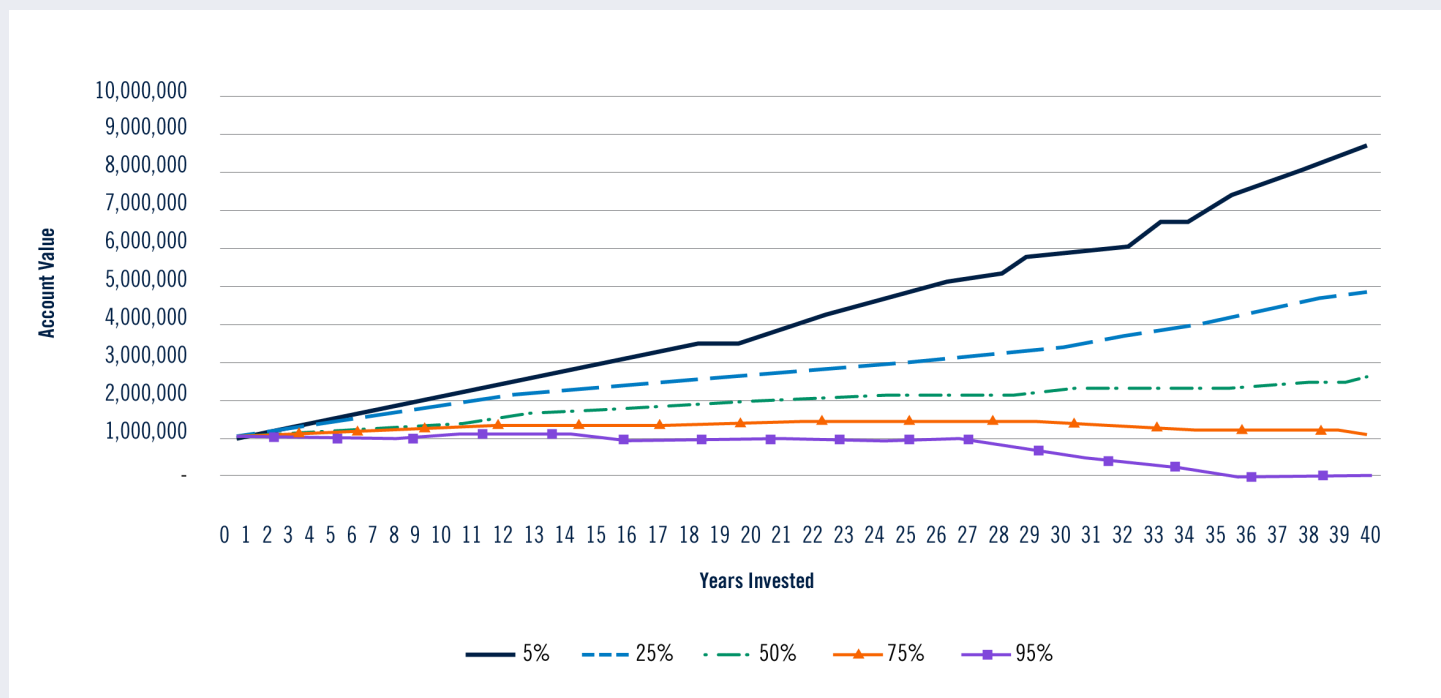
Simulation results: quantifying participant outcome improvement

Methodology

To test the impact of yield-enhanced stable value on participant outcomes, we ran a Monte Carlo simulation modeling a TDF designed for near-retirees. Our baseline participant enters the fund at age 55 with a \$1 million starting balance and retires at age 65, taking \$60,000 in annual withdrawals thereafter. We measured terminal account values after 30 years of retirement. The simulation requires a model for how interest rates evolve over time, since the crediting rate on a stable value fund ultimately depends on the path of prevailing yields. We model the short-term interest rate using the Cox–Ingersoll–Ross (CIR) model, a widely used framework in which rates fluctuate randomly but are continually pulled back toward a long-run average level.³ We also assumed a standard geometric crediting rate formula with the equity yield being the greater of the simulated 3-year treasury rate plus 3% or 6% and a wrap fee of 14 basis points deducted from both the market value and crediting rate of the accounts.

A conventional TDF without stable value established the benchmark against which we measured portfolios enhanced with stable value. The traditional glidepath results in, on average, ~\$3 million terminal account value.

BASELINE TERMINAL ACCOUNT VALUE WITHOUT STABLE VALUE



We constructed four stable value-enhanced scenarios, each involving the same base fund with the fixed income allocation partially replaced by a stable value fund containing a yield-enhancing satellite allocation. The four scenarios tested were a stable value fund that includes a:

- 10% allocation to U.S. equities
- 20% allocation to U.S. equities
- 20% allocation to U.S. REITs
- 20% allocation to global private infrastructure

We used the following long-term capital market assumptions from PGIM Investment Management published in 1Q26 to underpin the simulations as well as the corresponding correlation matrix also published by PGIM.

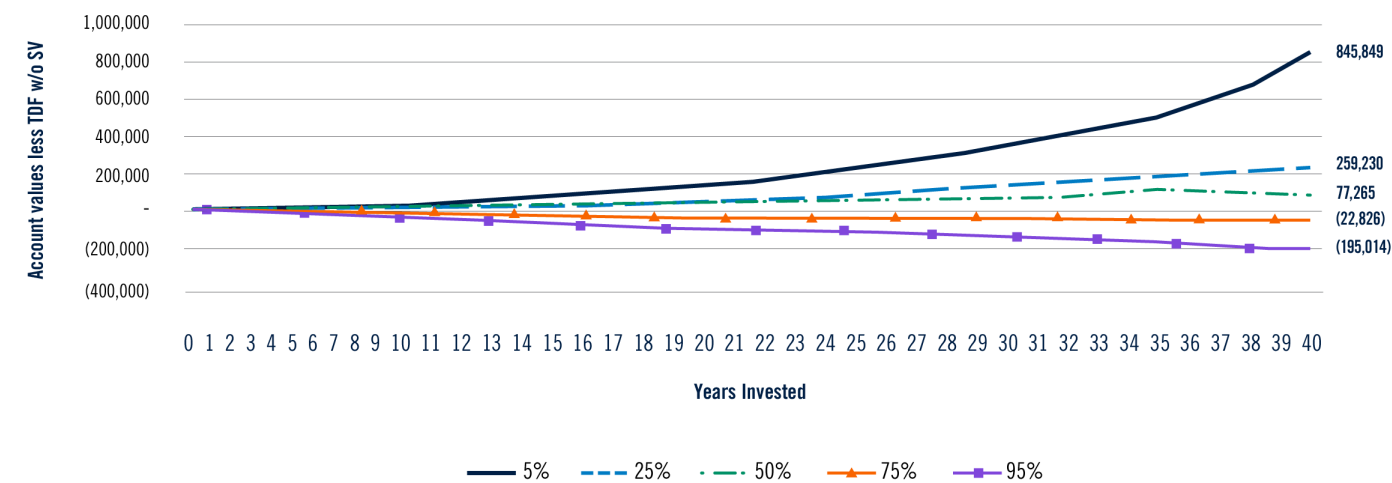
PGIM CAPITAL MARKET ASSUMPTIONS

ASSET	EXPECTED ARITHMETIC RETURN	EXPECTED VOL
U.S. Equities	6.37	15.18
U.S. REITs	8.19	17.58
Global Private Infrastructure	9.83	17.03

Terminal account values: stable value-enhanced TDF vs. baseline

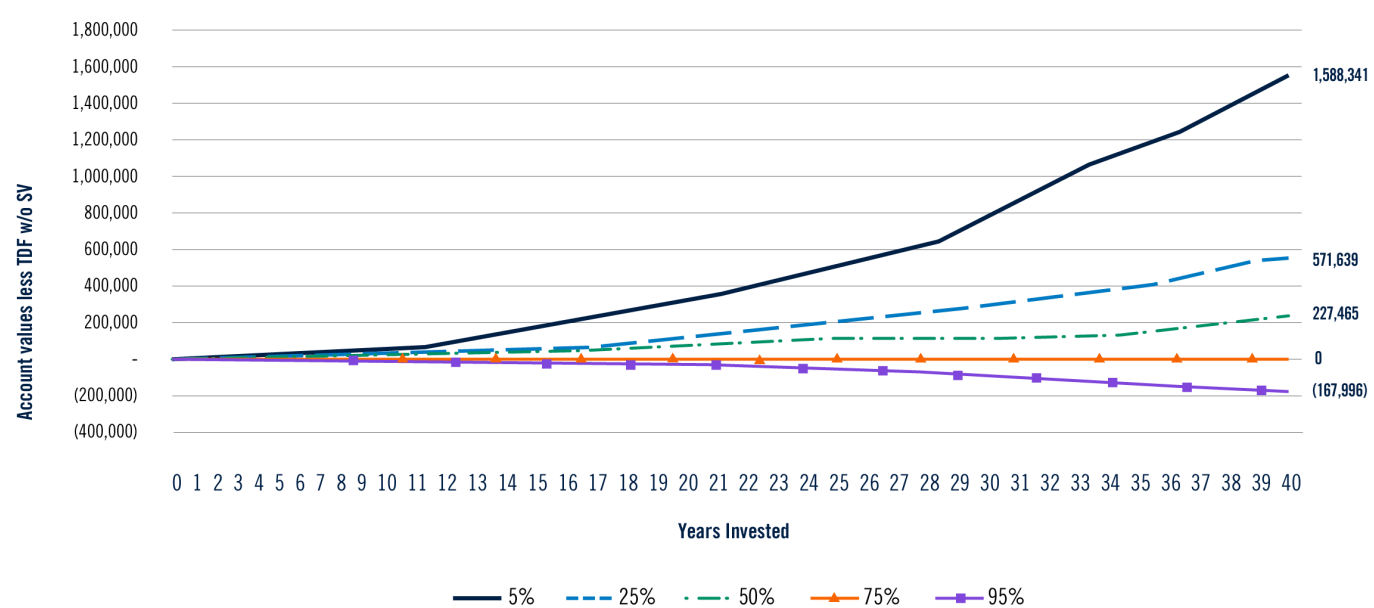
The results show significant potential improvement. With 10% equity allocation within the stable value fund, almost 75% of outcomes were better than without stable value, with the bottom 25% only slightly underperforming producing an asymmetric upside opportunity.

10% EQUITY ALLOCATION

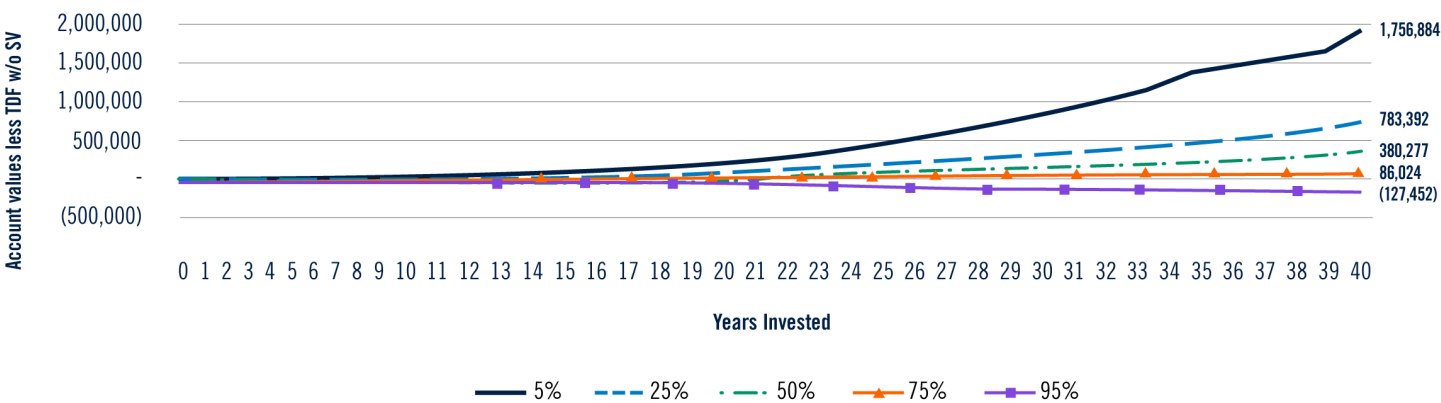


Increasing the equity allocation or utilizing alternative asset classes results in even more pronounced results.

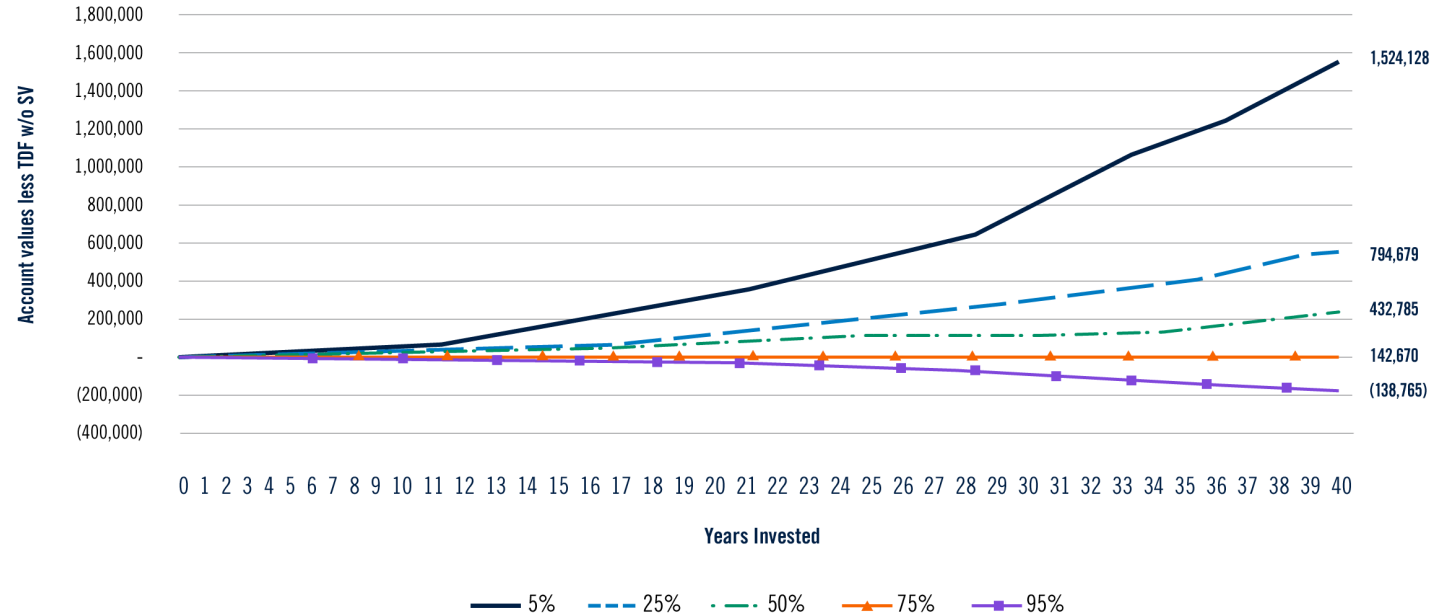
20% EQUITY ALLOCATION



20% U.S. REITS ALLOCATION



20% GLOBAL PRIVATE INFRASTRUCTURE ALLOCATION



Results: benefit to participant terminal account value vs. a TDF without stable value

The results demonstrate outcome improvements across all four scenarios. With a 10% equity allocation inside the stable value fund, nearly 75% of simulated outcomes produced a higher terminal account value than the baseline TDF without stable value. Even at the 25th percentile—where outcomes are weaker—the underperformance was modest. With a 20% equity allocation, 75% of simulated scenarios resulted in higher account balances, and the magnitude of the improvement at the median and upper percentiles was substantially larger.

The more differentiated asset classes, REITs, and global private infrastructure produced even more striking results, particularly at the upper end of the outcome distribution. Their higher expected returns and diversifying characteristics, when delivered through the stable value wrapper, generated upside potential that conventional fixed income isn’t designed to deliver. The following table summarizes the benefit to terminal account value at each percentile, expressed as the percentage improvement versus the baseline TDF without stable value.

TERMINAL ACCOUNT VALUE BENEFIT VS. A TDF WITHOUT STABLE VALUE

PERCENTILE	U.S. EQUITIES (10%)	U.S. EQUITIES (20%)	U.S. REITS (20%)	GLOBAL PRIVATE INFRASTRUCTURE (20%)
95 th	+16.7%	+26.4%	+57.7%	+67.8%
75 th	+7.9%	+16.0%	+24.8%	+28.7%
50 th	+3.0%	+9.1%	+14.1%	+15.8%
25 th	-1.6%	+0.1%	+3.7%	+4.2%
5 th	-14.9%	-13.9%	-7.4%	-5.6%

Source: Retirement Strategies Monte Carlo simulation. Baseline participant: age 55, \$1 million starting balance, retirement at age 65, \$60,000 annual withdrawals, 30-year distribution period. Results represent benefit to terminal account value versus a TDF without stable value. Past performance is not a guarantee or a reliable indicator of future results.

What the data tells us

Several conclusions emerge clearly from these results.

Upside participation is substantial and broad-based. Across all four scenarios, the improvements in the median and above are meaningful. Even the most conservative scenario—10% equity allocation inside the stable value fund—delivered a +3.0% improvement in the median. The most impactful scenario—global private infrastructure at 20%—delivered a +15.8% improvement at the median, with a +67.8% improvement at the 95th percentile. For participants who need their savings to last 30 or 40 years, these differences are substantial.

Downside risk is limited and manageable. The 5th percentile results show some underperformance across all scenarios—a reflection of the cost structure of stable value and the behavior of the higher-yielding asset classes in adverse conditions. But those tail-scenario losses are modest, relative to the gains at higher percentiles. The wrap contract's role in smoothing volatility is evident in how much the downside underperformance is contained compared to what an unwrapped equity or REIT allocation would produce.

Diversifying asset classes amplify the benefit. U.S. REITs and global private infrastructure, in particular, produced outcome improvements that are not simply a function of higher expected returns. Their diversifying characteristics—their low correlation to equities in certain environments—interact favorably with the wrap structure, producing a risk-adjusted outcome that exceeds what raw expected return comparisons would suggest.

The 25th percentile is relatively protected. Across three of the four scenarios, the 25th percentile participant does no worse than breakeven—and in the two scenarios involving non-equity satellite allocations, the 25th percentile shows measurable improvement. This suggests that stable value-enhanced TDFs do not simply benefit the participants with the best outcomes at the expense of those with the worst.



For participants who need their savings to last 30 or 40 years, these differences are substantial.”



The wrap structure distributes outcomes more favorably across the full distribution.”

Implementation considerations

Choices for plan sponsors

Plan sponsors considering the addition of a stable value component to an existing TDF or multi-asset portfolio face several design decisions that will shape participant outcomes. These decisions deserve careful analysis rather than default choices:

- **Allocation size.** The magnitude of the stable value allocation—and the satellite allocation within it—directly influences both the expected return improvement and the level of residual risk participants carry. Larger allocations to higher-yielding satellites amplify outcomes at both ends of the distribution. A staged approach, starting with a modest allocation and scaling as experience accumulates, may be appropriate for plan sponsors new to the structure.
- **Glidepath phase targeting.** Stable value-enhanced TDFs are particularly well-suited to the years immediately before and after retirement, where sequence-of-returns risk is most acute and the value of the wrap's smoothing mechanism is highest. Plan sponsors should consider whether to apply the stable value enhancement across the full glidepath or to concentrate it during the critical retirement transition window.
- **Contract structure.** The wrap contract's specific terms, including coverage levels, crediting rate methodology, and transition provisions, will influence both the cost of the structure and the permitted asset classes. Engaging wrap providers early in the design process, with the plan's specific glidepath and participant demographics in mind, helps ensure that contract terms better align with plan objectives.

Operational coordination

Adding stable value to a TDF is not a change that any single party can implement in isolation. A shift in coordination and working style across the record keeper, program manager, and wrap provider may be required. These three stakeholders have distinct roles in maintaining the structure, and effective communication among them, particularly during transitions, is essential to a smooth implementation.

Plan sponsors should anticipate a transition timeline measured in months rather than weeks and work with their advisors and consultants to develop a detailed implementation plan that accounts for the operational dependencies involved. Early engagement with all three parties, before commitments are made, reduces the risk of implementation delays or misaligned expectations.

Participant communication

Unlike a fund lineup change that requires participants to choose between options, adding stable value to a TDF typically does not require any action on participants' part. The change happens at the portfolio level, in the TDF glidepath, and participants holding the TDF simply benefit from the improved structure going forward.



Stakeholders have distinct roles. Maintaining communication, particularly during transitions, is essential to a smooth implementation.”

That said, participants do deserve clear communication about the change and its implications. A well-crafted communication program—one that explains what stable value is, how it differs from the fixed income it is partially replacing, and why the change is expected to improve outcomes—will build participant confidence in the updated fund design.

The opportunity is clear

The case for stable value-enhanced target-date funds is both principled and empirical. In principle, incorporating stable value into a TDF glidepath allows fund managers to allocate to higher-yielding assets, using a wrap structure that manages the downside volatility that would otherwise make that approach imprudent for near-retirees. In practice, as our Monte Carlo simulation results demonstrate, this approach delivers meaningful improvements to participant outcomes across a wide range of market scenarios.

The six assumptions we address in this paper about cost, conservativeness, liquidity, inflation protection, book value coverage, and the relationship to cash, represent the primary barriers to wider adoption.

Each of them, when examined carefully, turns out to reflect an outdated or incomplete understanding of how stable value works and what it can do. Prudential believes that plan sponsors, fund managers, advisors, and consultants who consider this analysis will view stable value-enhanced TDFs or other multi-asset portfolios, not as niche or experimental, but as a structurally stronger building block for DC plan design.

Participants deserve a TDF that reduces risk as they approach retirement while preserving as much growth potential as possible. Stable value-enhanced TDFs deliver exactly that.



The data speaks for itself.

We'll help to build a meaningful allocation. Contact Eitan Gazit at eitan.gazit@prudential.com or visit prudential.com/institutions/stable-value.

¹ Morningstar. A Hidden Trend Is Changing 401(k) Plans. Here's What It Means for Investors. <https://www.morningstar.com/funds/hidden-trend-is-changing-401k-plans-heres-what-it-means-investors>.

² Stable Value Investment Association. Stable Value at a Glance. <https://www.stablevalue.org/stable-value-at-a-glance/>.

³ John C. Cox, Jonathan E. Ingersoll, Jr., and Stephen A. Ross, "A Theory of the Term Structure of Interest Rates," *Econometrica* 53, no. 2, March 1985.

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