MEMO# 21204

June 1, 2007

Institute Letter to OMB Supporting Department of Labor Proposal on Default Investments

[21204]

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TO: BOARD OF GOVERNORS No. 15-07
PRIMARY CONTACTS - MEMBER COMPLEX No. 12-07
PENSION MEMBERS No. 30-07 RE: INSTITUTE LETTER TO OMB SUPPORTING DEPARTMENT OF LABOR PROPOSAL ON DEFAULT INVESTMENTS

Yesterday, the Institute sent the attached letter to the Office of Management and Budget (OMB) responding to a letter recently sent to OMB by the American Council of Life Insurers (ACLI). The ACLI letter urged OMB to return the Department of Labor's forthcoming final regulation on qualified default investment alternatives if it does not include stable value funds as qualified default investments. Our letter provides support for the regulatory impact analysis included in the Department's proposed regulation, which ACLI challenged.

Measures enacted in the Pension Protection Act were intended to facilitate automatic enrollment and enable employers to use default investments more suitable for long-term retirement investing, rather than money market and stable value funds. The Institute's letter notes that the statutory language requires a "mix of asset classes." We also point out that data cited in the ACLI letter is incomplete and misleading. In addition, the letter presents the results of a series of stochastic simulations run by the Institute showing the effect of investing in a lifecycle fund versus investing in a stable value fund over a worker's career. The simulations show that lifecycle funds will result in greater retirement savings in the vast majority of cases.

We will keep you informed of further developments on this important issue.

Paul Schott Stevens

President

Attachment