DALBAR
The Measurement of Success

January 19, 2007

The Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N- 5669
U.S. Department of Labor
200 Constitution Avenue, NW.
Washington, DC 20210

Attn: Default Investment Regulation

E-mail to e-ORI@dol.gov

Ladies and Gentlemen:

This letter amends the comment letter from DALBAR, of October 10, 2006.

The growing concern over the absence of a stable value option as a qualified default investment alternative has merit on the basis of the high cost of the alternatives proposed in the (initial proposal). It is also true that a stable value option could materially limit the secure retirement of millions of participants.

DALBAR analyzed and addressed this question during the development of our "DART" program in 2003 and submit to you the findings and the solution that was used at the time.

In summary, the higher cost of administration of investments that consist of mix of asset classes (daily valuation, disclosure materials, statements, telephone service) exceeds the increased returns over stable value investments unless the investment exceeds approximately $1,000. DALBAR solved this dilemma by establishing a threshold where a stable value default is applicable. In this way, participants with low balances are not burdened with the high administrative cost until balances accumulate to a level where the returns exceed the cost.

We therefore suggest adding a fourth QDIA option that consists of stable value investments, limited to participants with balances of less than a threshold level. After participant balances reach the threshold level, the balance in the default investment are automatically switched into one of the three proposed options.

Analysis

The use of a mix of asset classes includes incremental administrative costs that are not present with the stable value investments. These costs reduce the investment return so that participants do not benefit until the actual investment return dollars are greater than these costs. The following table shows the estimated administrative cost per participant that must be recovered through investment returns. These estimates are based on current industry practices and costs collected by DALBAR:

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Administrative Item	Estimated Annual Cost per Participant		
	Stable Value	Mix of Asset Classes	Difference
Materials provided to the plan relating to investment	$1.00	$18.00	$17.00
Processing for daily valuation	$0.00	$3.50	$3.50
Periodic participant statements (Processing, printing, paper and postage)	$2.00	$18.00	$16.00
Processing to credit dividend and capital gain distribution	$0.00	$2.50	$2.50
Asset allocation and re-balancing processing	$0.00	$1.50	$1.50
Telephone service to explain investments and answer inquiries	$0.50	$5.00	$4.50
Total	$3.50	$48.50	$45.00

The cost difference of $45.00 represents the additional fixed cost that reduces the participant's annual return.

DALBAR has also analyzed the difference in investment return between stable value and a mix of asset classes in the 2003 report "Quality versus Quantity". Findings from this analysis showed the difference in return for a participant over a 45 year working life.

Average Annual Return over 45 Year Working Life				
Equity Funds	Bond Funds	Stable Value	Mix of Asset Classes[1]	Difference
11.75%	7.28%	5.53%	9.79%	4.26%

This shows that the participant is disadvantaged until the difference in returns of 4.26% exceeds the $45.00 difference in the administrative costs.

The following table shows the net cost or benefit to participants at various levels of account balance:

[1] Mix used is 10% Stable Value, 30% Bond and 60% Equity

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Account Balance	$100	$1,000	$10,000	$100,000
Difference in Administrative Cost	$45	$45	$45	$45
Difference in Return	$4.26	$42.60	$426.00	$4,260.00
(Cost) or Benefit to Participant	($40.74)	($2.40)	$381.00	$4,215.00

This table shows that the balance at which there is a net benefit to the participant is over $1,000.

Setting a threshold level in excess of $1,000 where stable value investments can be used as a default will provide participants with maximum net benefits from their retirement plan.

Thank you for your consideration of these comments in developing the final regulations.

Louis S. Harvey
President

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