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CIRS

The Cultural Institutions Retirement System

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November 10, 2006

U.S. Department of Labor
Employee Benefits Security Administration
Room N.5669
200 Constitution Avenue, N.W.
Washington, DC 20210

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Attention: Default Investment Regulation

Dear Sir or Madam:

I am writing with regard to the proposed Qualified Default Investment Alternative ("QDIA") rule under participant directed individual account plans released on September 27, 2006.

The Cultural Institutions Retirement System ("CIRS") is the plan sponsor of a multiemployer 401(k) savings plan for over 10,000 active employees from 366 tax-exempt cultural institutions and day care centers in the New York City metropolitan area. CIRS also provides a defined benefit pension plan as well as group life and welfare benefits to over 18,000 active employees, deferred invested as well as retirees and beneficiaries.

The 401(k) Savings Plan has used our Stable Value Fund as a default investment fund for new employees since 1986. We believe the proposed rules should be re-issued and simply add Stable Value Funds are as a fourth default investment alternative. Stable Value Funds are a distinct asset class and have a proven track record of adding value to participants in defined contribution plans. Stable Value Funds provide for capital preservation and in fulfilling this role should continue to receive fiduciary protection.

The CIRS 401(k) Savings Plan has utilized the Stable Value Fund as the default investment option due to collective bargaining. We also request that the Department of Labor provide plan sponsors with guidance to maintain negotiated plan investment features when the final regulations are released for QDIA's.

The 401(k) Savings Plan is a supplemental retirement savings plan as our members are also covered by a defined benefit pension plan. There are no loans or hardship withdrawals available in the Savings Plan.

As of July 1, 2006, the average salary for our members is $35,000 and the combination of Social Security, pension and the 401(k) Savings Plan put long service employees in a very fortunate position.

CIRS has aggressively sought to educate members about investment concepts such as diversification, types of investments, etc. The members, however, tend to view the Stable Value Fund as the best investment alternative in which they preserve their principal (employee contributions and employer contributions) and receive a reliable rate of interest. As of June 30, 2006, the Stable Value Fund was 60% of our assets. Our members have diversified their investments, but the majority are satisfied with the Stable Value Fund.

A critical area of success that we have seen with our members is the rise in the rate of salary being deferred by them. The average contribution rate at the end of June 2006 was 5.49% and has held fairly steady over the past five-years around 5.5% despite the low to modest salaries of our members.

For the majority of our members, the 401(k) Savings Plan is a better example of a "savings" vehicle, rather than being the primary retirement vehicle. The Stable Value Fund is where our members choose to direct their savings. Our members rely on the Stable Value Fund due to the "risk" they perceive with equity investments and deal with the added responsibility of making investment decisions.

We urge the Department of Labor to carefully re-examine default investments into balanced, life cycle or target date funds. Exposure to these types of investments will improve diversification, but may not always result in better investment performance. We believe that defining risk in a life cycle or target date fund based solely on age has the potential to expose employees to volatile returns in the equity and fixed income markets when they leave one of our employers. A case in point from our experience is the short service, higher turnover rates among younger employees. Many do not stay to vest in the CIRS Pension Plan, but have a Savings Plan account balance when they leave. Such young employees are the most likely to experience a loss in age-based funds due to the high equity exposure. The short service employees appreciate the fact that they do not experience any loss of principal in their account balance. The same argument is made by older workers who come to work at one of our member institutions and do not want to risk any investment loss.

We are also very concerned that higher fees would be assessed by active managers for balanced funds, lifecycle or target date funds as well as by providers of "managed accounts". We believe the Department of Labor should not add managed accounts for automatic enrollments, but leave it up to the individual employees to select the alternative.

We request that the Department of Labor add Stable Value Funds as a qualified default investment alternative. We urge the Department of Labor to keep an open mind about the QDIAs and defer the final regulations. The Department needs to continue to have a dialogue with plan sponsors and investment providers regarding the design, implementation and transition. CIRS supports the Stable Vale Investment Association and the comments submitted on the QDIA.

We will continue to have a large number of members revert to the Stable Value Fund due to its low risk profile and ability to produce above average returns compared to short-term investments. We again restate our case for including stable value funds within the definition of qualified default investment alternative.

If I can be of any further assistance, please feel free to contact me at (212) 674-0101.

Sincerely,

Robert M. Fox

Robert M. Fox
Executive Director

RMF/nb

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