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#### FILED ELECTRONICALLY

Office of Regulation 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

RE: Proposed Default Investment Regulation

Dear Sir or Madam:

Vanguard appreciates the opportunity to submit the following response to the Department of Labor's request for comment on the proposed default investment alternative regulations. We believe that our experience as one of the nation's largest and most cost-effective providers of 401(k) investment services and our comprehensive research on the subject of default funds performed by the Vanguard Center for Retirement Research position us well to provide comments to the Department on this very important issue.

At the outset, we would like to thank the Department for the significant focus and effort the Department has given to this very important retirement-savings policy issue. We note that much of the Department's effort was undertaken well before the recent passage of the Pension Protection Act of 2006, which amended ERISA section 404(c) to provide relief to fiduciaries that invest participant assets in certain types of default investments. The Department's advance focus and effort has resulted in what is, in our view, a very sound proposed approach to the issue of default funds in participant-directed plans.

# 1. Managed account programs and balanced investment vehicles are appropriate Qualified Default Investment Alternatives.

We strongly support the Department's identification under the proposal of managed accounts, life-cycle funds, targeted-retirement-date funds, and balanced funds as "qualified default investment alternatives" (QDIAs). We believe that these permissible classes of default investment options reflect the view that the principal public policy objective for individual account plans is the funding of long-term retirement savings over the participant's lifetime. Consistent with this premise, these classes of QDIAs further this objective.

We also note that the Department did not include a capital preservation vehicle such as a money market or stable value fund in the class of possible QDIAs. In this regard, we concur with the Department's analysis that the exclusive use of "investments in capital preservation vehicles (i.e., money market and stable value funds) deprive investors of the opportunity to benefit from the returns generated by equity securities that have historically generated higher returns than fixed income investments." We agree that over a long-term investment horizon, which is the contemplated time horizon of a QDIA, the rate of return of money market or stable value funds may not be adequate to generate sufficient retirement savings for most participants. Therefore, exclusive use of such a default poses a significant risk to participants and beneficiaries.

That said, like the Department, we also believe that money market funds, stable value and similarly performing capital preservation vehicles may play an important role in the investment of a participant's account. Given the risk and potential detriment of exclusive use, however, we agree that such vehicles should not be considered stand-alone qualified default investment alternatives.

### 2. Notice should be required within a reasonable period of time prior to investment.

The proposed regulation requires that a participant be provided a notice of their investment in the QDIA at least 30 days before the first investment in the QDIA and at least 30 days in advance of each plan year. We are very concerned that a 30-day notice requirement may have an adverse effect in the context of an automatic enrollment arrangement.

With automatic enrollment, our experience is that plan sponsors often provide at the time of hire an explanation of the automatic enrollment process and of how the participant's account will be invested if there is no affirmative investment direction made. On the next following pay date, the plan sponsor begins payroll deduction contributions for the participant and invests the contributions in the identified default fund. With this approach, the participant never experiences a reduction in their take home pay, a fact that research suggests will result in participants being much more likely to remain enrolled in the plan.

We are concerned that if a 30-day notice requirement were imposed, there may be situations where the plan sponsor needs to wait until after the first pay date to begin payroll deduction contributions. As such, we would encourage the Department to require only that the notice be provided within a period of time reasonably sufficient to allow for the employee to make an election. In this way, the notice requirement would not impede the automatic enrollment of employees at the time of hire.

#### 3. Defaulted participants should receive the same information that other investing participants receive.

A condition of the proposed regulation requires a "pass-through to participants and beneficiaries of any material (such as account statements, prospectuses, and proxy voting material) provided to the plan relating to the participant's or the beneficiary's investment in a qualified default investment alternative." We understand that this proposed provision is intended to ensure that participants are adequately informed about investments made on their behalf under the plan's default provisions. However, some information received by the plan (such as proxy materials where participants do not vote the shares or supplemental prospectuses) is not relevant for the average investor and may serve to overwhelm and confuse participants.

In our view, defaulted participants should be provided with the same investment information that other participants invested in the fund receive. In that way, defaulted participants are not receiving additional and potentially confusing information on their investments.

## 4. Transition relief is needed for sponsors previously using money market or stable value defaults.

As we indicated previously, we applaud the Department on the identification of balanced vehicles and managed accounts as appropriate QDIAs. That said, plan sponsors who previously used a money market or stable value fund as a default will need some guidance on how best to transition to a new QDIA.

Our proposed approach would be to have the Department issue guidance confirming that it would be appropriate for plan sponsors to notify all plan participants with an account balance that is 100% invested in the previous default of: (1) the identification and availability of the new QDIA going forward, and (2) the participant's

ability to exchange their existing balance to the QDIA or any other option under the plan. In the notice, the sponsor would also notify the participant that their prospective contributions will be invested in the new QDIA.

Vanguard greatly appreciates the opportunity to submit these comments on the proposed default investment regulation. If there are any aspects of Vanguard's comments that the Department would like to explore in greater detail, please contact the undersigned. Lastly, Vanguard would welcome the opportunity to continue working with the Department if we can be of additional assistance.

Respectfully submitted,

/s/ Dennis Simmons /s/ Stephen Utkus

Dennis Simmons Stephen P. Utkus

Principal, Legal Principal, Vanguard Center for Retirement Research