-----Original Message-----
From: Mitchell, Olivia [mailto:mitchelo@wharton.upenn.edu]
Sent: Wednesday, March 31, 2004 3:29 PM
To: Moffitt.betty@dol.gov
Cc: Madrian, Brigitte; Mitchell, Olivia
Subject: Comment: Proposed Class Exemption

To: Ms. Betty Moffitt, EBSA
From: Olivia S. Mitchell and Brigitte C. Madrian, The Wharton School

We write to comment on EBSA's *Proposed Class Exemption for the Establishment, Investment, and Maintenance of Certain Individual Retirement Plans Pursuant to an Automatic Rollover of a Mandatory Distribution* (Application No. D-11203)

We are professors at The Wharton School of the University of Pennsylvania, expert in pension and retirement security matters.

We wish to express concern about the proposal described under Section IV(e) describing the "Eligible Investment Product." As indicated in the *Proposed Class Exemption*, the plan would be to require that the funds resulting from the mandated rollover to individual retirement accounts would be invested in: (a) money market funds, (b) stable value products, (c) interest-bearing saving accounts, or (d) certificates of deposit.

In our judgment, this proposal will have two negative consequences. First, it negates the asset allocation choices that active workers made in their pension plans while they were with their firms. Second, it requires that the investments be channeled into a low expected return portfolio, which will likely lead to significantly smaller retirement accumulations than otherwise.

We propose, instead, that EBSA should consider alternative default portfolio allocations for the assets in these individual retirement accounts. For instance, IRS Letter Rulings pertaining to automatic enrollments allow for default allocations of active workers' contributions into balanced funds. This is also broadly consistent with the 50/50 stock/bond allocation proposed by the 2001 President's Commission to Strengthen Social Security (www.ssa.gov). Alternatively, the IRAs could replicate the asset allocations that workers selected while active in their employer plans, to the extent feasible.

We very much applaud EBSA's efforts to preserve retirement plan accumulations, and hence we think it desirable to create incentives to keep accruals in tax-qualified vehicles. Yet permitting workers to replicate their investment portfolios in their IRAs would further enhance these aims.

Please contact us with any questions at mitchelo@wharton.upenn.edu or bmadrian@wharton.upenn.edu.

Olivia S. Mitchell
Executive Director, Pension Research Council
Director, Boettner Center for Pensions and Retirement Security
International Foundation of Employee Benefit Plans Professor
Department of Insurance & Risk Management, Wharton School
3641 Locust Walk, 304 CPC, Philadelphia, PA 19104-6218
T: 215-746-5706 * F: 215-898-0310
email: mitchelo@wharton.upenn.edu
http://rider.wharton.upenn.edu/~prc/prc.html

Brigitte C. Madrian
Boettner Chair in Financial Gerontology
Associate Professor of Business and Public Policy
The Wharton School
3620 Locust Wlk, Philadelphia PA 19104-6372
T: 215-898-9450
Email: bmadrian@wharton.upenn.edu