Manning & Napier Advisors, Inc.
290 Woodcliff Drive
Fairport, NY 14450

November 13, 2006

VIA ELECTRONIC FILING

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

Re: Proposed Regulation on Default Investment Alternatives Under Participant Directed Individual Account Plans

Ladies and Gentlemen:

Manning & Napier Advisors, Inc. commends the Department of Labor for proposing regulations intended to address various issues associated with default investments for a participant's individual account. We strongly support the Department's attempt to provide guidance to plan sponsors to design an investment menu that includes a default option that is appropriate to help participants meet their long term retirement objectives. Included below are suggestions to provide clarification that we feel will assist plan fiduciaries in fulfilling their obligations while furthering the goals of the Pension Protection Act of 2006 (the "PPA") broadly, and the proposed regulations regarding a qualified default investment alternative (a "QDIA") more specifically.

Background

Prior to the PPA, plan sponsors had no fiduciary relief for participant accounts that lacked a specific investment direction from the participant. The proposed regulations address the need for guidance in this area, by amending Section 404(c) of ERISA to provide for a participant being deemed to have maintained control over their retirement account when invested in a QDIA. By establishing the QDIA, the proposed regulations should encourage a plan sponsor to adopt automatic enrollment and utilize investment vehicles other than capital preservation as default options, thereby increasing overall participation and savings rates.

Under new section 404(c)(5) of ERISA, a participant is treated as exercising control over the assets in his or her account with respect to assets invested in a default investment alternative in accordance with the Department's regulations. The QDIA may take the form of a Lifecycle Fund, a Balanced Fund or a managed account established by an ERISA fiduciary. When adopted, the proposed regulation should increase plan participation and overall retirement savings rates, as some sponsors previously had been reluctant to institute automatic enrollment programs or to invest participant assets in anything other than capital preservation vehicles. Nonetheless, it is imperative for the regulation to provide appropriate certainty for plan sponsors in selecting default investments. Failure to adequately do so will create reluctance on the part of plan fiduciaries to select default investments designed to balance long-term growth with capital preservation.

Lifecycle v. Lifestyle

The proposed regulations specifically allow for the use of "lifecycle" funds as a QDIA. Such funds are defined as investment vehicles that, among other things, adjust their portfolio holdings to a more conservative asset allocation as the participant moves toward their target retirement date. It is unclear whether a "lifestyle" (i.e. objectives or risk-based) fund would be considered a QDIA under the proposal. Lifestyle funds provide varying degrees of long-term appreciation and capital preservation through a mix of equity and/or fixed income securities, much like lifecycle funds. But unlike lifecycle funds, the allocation in a given lifestyle fund does not automatically change over time to become more conservative; rather, the investment manager of a lifestyle fund invests the fund's assets according to a targeted level of risk, such as "conservative" or "moderate." As such, we believe that certain lifestyle funds would be appropriate default investments under the criteria for balanced fund QDIAs.

In addition, we believe lifestyle funds could be appropriate default investments when the plan sponsor uses a package of lifestyle funds that includes movement of participants through the series of funds automatically over time as participants reach predetermined ages. This is functionally equivalent to selecting a package of lifecycle or target-date funds as available default investments. The Department should make clear that lifestyle funds, in addition to lifecycle funds (as currently defined in the proposed regulations), can be used as a QDIA. We would note that this alternative approach may require additional guidance as to determining which investment vehicles are utilized for particular age groups as well as certain administration aspects handled by recordkeepers.

Additional considerations

The investment universe is vast and ever-expanding. Our industry research shows that there currently exist close to 100 lifecycle fund families. A full two-thirds (approximately 67) of these fund families are objectives (or risk) based, while less than one-third (approximately 29) are age (or target) based. Without the suggested

clarification described above, the proposed regulations could cause a plan fiduciary to unduly restrict the universe of investment options from which to choose a QDIA.

When fulfilling their fiduciary duties of prudently selecting investment options on a plan's menu, it is imperative that plan sponsors have the ability to consider meaningful performance data for the various investment options. Numerous age (or target) based funds have been recently established and may not have extensive investment performance histories. In contrast, there are a number of objectives (or risk) based fund families that have longer operating histories. Longer performance track records would be helpful to a plan fiduciary when considering the addition of a QDIA onto their plan's investment menu.

While we feel it is appropriate for the proposed regulations to encourage the use of a multi-asset class fund as a QDIA, restricting the safe harbor to "balanced" funds may unnecessarily restrict the universe of investment options considered by a plan sponsor. A balanced fund is generally defined as an investment vehicle whose portfolio holdings are invested in a static 50/50 mix of stocks and bonds. A review of balanced funds suggests that many of these funds have a portfolio that is in fact more heavily weighted to stocks than bonds. Moreover, there are numerous fund families that are not labeled "balanced," but are considered multi-class asset allocation funds. We would suggest that the Department consider replacing the term "balanced" with a broader term encompassing investment vehicles that invest in multiple asset classes in an effort to balance the conflicting goals of long term capital growth with capital preservation.

Conclusion

In sum, Manning & Napier Advisors, Inc. commends the Department of Labor for addressing plan sponsors' need for additional guidance as it relates to increasing overall plan participation and savings rates. In addition, specific guidance for default investment options on a plan's menu should serve to further this goal. In order to provide the most effective guidance to plan fiduciaries, we feel that the proposed regulations should be modified:

- to explicitly address the concept that an appropriate lifestyle fund (i.e. a fund that is objectives or risk-based), in addition to lifecycle or age-based funds, would be an appropriate QDIA; and

- to expand the definition of a valid multiple asset class QDIA from "balanced" to a definition that encompasses the broader universe of asset allocation funds available in the industry.

We feel that these recommendations will allow plan fiduciaries to more effectively fulfill their obligations under ERISA as well as increase the likelihood that a greater number of plan sponsors will utilize a QDIA on their plan's menu.

Respectfully submitted,

Richard B. Yates
General Counsel