June 27, 2007

DWIGHT
ASSET MANAGEMENT COMPANY

The Honorable Bradford Campbell
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Re: Stable Value Funds as Default Investment Alternative for Participant-Directed Individual Account Plans

Dear Assistant Secretary Campbell:

The purpose of this letter is to ask the Department of Labor to include stable value as a fourth category under the proposed QDIA safe harbor definition to provide a capital preservation default investment alternative. This letter also supplements the materials previously submitted by the Stable Value Investment Association on this topic.

While a primary intent of the regulation is to give comfort to employers that want to select default options that emphasize capital appreciation through equity investments, this is clearly accomplished by allowing target date retirement funds, managed accounts, and balanced funds as QDIAs. The Department also stated in the preamble to its proposal that capital preservation products may be prudent default investments for some participants or beneficiaries. However, by excluding capital preservation products under the QDIA definition, employers will be reluctant to choose such alternatives even under circumstances where such products may be most prudent for their participants. Therefore, the QDIA definition should be expanded to include stable value to allow fiduciaries a sufficient range of prudent choices that include capital preservation based on the characteristics of their respective workforces.

The Research Foundation of the CFA Institute just issued a publication titled "Lifetime Financial Advice, Human Capital, Asset Allocation and Insurance", in which the authors, Roger G. Ibbotson, Moshe A. Milevsky, Peng Chen, CFA, and Kevin X.

100 Bank Street, Suite 800, Burlington, VT 05401 • (802) 383-4000 • fax (802) 862-5097 • www.dwight.com

Zhu, discuss the importance of incorporating the concept of "human capital" into the asset allocation decision for individual investors. The authors state that

> *"Human capital is defined as the present value of an investor's future labor income. From the economic perspective, labor income can be viewed as a dividend on the investor's human capital. Although human capital is not readily tradable, it is often the single largest asset an investor has."*

The authors make the case that an individual's investment portfolio should be diversified in a manner that incorporates the human capital risk. *"There is a growing recognition among academics and practitioners that the risk and return characteristics of human capital – such as wage and salary profiles should be taken into account when building portfolios for individual investors."* Younger, lower paid employees often experience less job security than more experienced, highly compensated employees. In addition, these younger, lower paid employees generally have limited financial capital or savings to help offset their risk of labor income loss. *"Therefore, in the early stages of the life cycle, financial and investment capital should be used to hedge and diversify human capital rather than used naively to build wealth."* When labor income is uncertain, volatile or highly correlated to the stock markets, the result is human capital with equity-like characteristics. Under these circumstances, the authors conclude that the employee's financial capital should be tilted toward low risk investments to provide for a diversified overall portfolio.

Stable value, which provides capital preservation combined with appreciation from intermediate fixed-income-like returns, may be the most prudent default investment for certain employee populations. While stable value is generally considered appropriate for employees closer to retirement, young or lower wage employees can be quite risk-averse, particularly when their human capital resembles equity. *"Labor income is uncertain for most investors for a number of reasons, including the possibilities of losing one's job or being laid off. The uncertainty in labor income makes human capital a risky asset."* To offset their human capital risk, these employees should favor more conservative financial investments, such as stable value funds, that provide fixed-income-like returns along with capital preservation.

Most employers will likely choose target date retirement or balanced funds as default options to encourage capital appreciation, particularly for younger investors who have long investment time horizons. However, employers must also consider the human capital characteristics of their employee base, such as job security, pay level and compensation volatility, to avoid inappropriate and overly aggressive asset allocations for investors with equity-like human capital. "*Portfolio allocation recommendations that do not consider the individual's human capital are not appropriate for many individual investors who are working and saving for retirement,*" emphasize the authors of this study.

The Department's proposed safe harbor will protect employers from litigation concerns and encourage them to make default choices that emphasize capital appreciation. Employers automatically enrolling participant populations of primarily young, low wage employees with equity-like human capital may prudently determine that a capital preservation product, such as stable value, is the most appropriate default option. However, these employers will now have a greater likelihood of litigation risk if stable value remains excluded as a QDIA option. By adding stable value as a fourth category under the proposed QDIA definition, employers will have a sufficient range of options to make prudent default investment choices based not only on age and general risk-tolerance assumptions, but also on the human capital characteristics of their specific employees.

If a capital preservation vehicle such as stable value is not included as a fourth QDIA, the ultimate goal of the Pension Protection Act to increase retirement savings and security through automatic enrollment and deferral may be compromised when the volatility of the chosen QDIA causes risk-averse participants to opt out of their plan. The Department of Labor can significantly advance the interests of plan participants and beneficiaries by giving employers a sufficient range of QDIA safe harbors that are most appropriate for their respective workforces, including capital preservation vehicles like stable value funds.

Dwight Asset Management Company is a fixed income manager with over $35 billion in stable value fund assets. While almost all of these assets are actively designated by 401(k) participants to stable value, we believe that stable value should be included as a fourth stand-alone QDIA for the reasons stated above in addition to the analysis previously submitted by the Stable Value Investment Association.

Thank you for your consideration of this request. If you have any questions, please do not hesitate to call me at 802-383-4018.

Sincerely,

Laura P. Dagan

Laura P. Dagan, CFA
President & CEO

CC: Ms. Susan E. Dudley, Administrator
Office of Information and Regulatory Affairs
Office of Management and Budget
725 17th Street, N.W.
Washington, DC 20503