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Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669, U.S. Dept. of Labor,
200 Constitution Avenue, NW
Washington, DC 20210

Attention: Default Investment Regulation

Dear Sir:

We applaud the evolution of automatic enrollment in 401(k) plans, and the creation of the QDIA. However, we believe that a new investment alternative in 401(k), 403(b), and 457 plans should be specifically permitted as a QDIA.

In 1997, the GAO performed a Study which revealed that retirement plans with Loan Provisions experience an increase in participant contributions of about 35%. A system which efficiently and accurately initiates, processes, and administers loans in retirement plans was awarded a patent in 1993, received a favorable DOL Opinion letter in 1995, and was approved by the IRS in December, 2002.

This system involves the establishment of a line of credit (LOC) in the participant's account, with access made available using a Loan Card. The maximum LOC is the lesser of 40% of vested account or $10,000. An automatic enrollee who is defaulted into an investment portfolio should have that portfolio include the Loan Card line of credit.

If we examine the QDIA requirements, the Loan Card line of credit fits in well:

An investment is a QDIA if---

1) it is not an employer security.

2) there are no financial penalties imposed on a participant who wishes to transfer from the QDIA to another alternative.

3) it is managed by an investment manager, or an investment company – the participant should certainly be considered his own investment manager re: his line of credit.

4) it is diversified so as to minimize the risk of large losses – the Loan Card LOC is a fixed income investment, with interest on any accessed LOC paid by the participant to his own account.

5) it uses one of three types of investment products – the LOC, essentially directed by the participant, fits well in a portfolio which provides long term appreciation and capital preservation.

Here is how the LOC as a QDIA would work:

a) The LOC is established as part of a portfolio of two or more QDIA's.

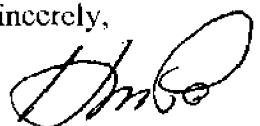
b) Plan assets attributable to that participant would be credited to the LOC until the maximum LOC is reached.

c) The participant would control access to, transfer from, or extinguishment of the LOC.

Of course, the Loan Card LOC would only be available in plans with Loan Provisions.

A one-page description of the Loan Card system is attached.

Sincerely,



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PARTICIPANT LOANS IN RETIREMENT PLANS
PROCESSING IN THE 21st CENTURY

We know that a large percentage of participants in defined contribution retirement plans (more in larger plans than smaller plans) have available to them the right to borrow from their account while still employed. Typically, the permitted reason for the loan will be a medical emergency, education of a child, or sustenance of home and family. Depending on the study, about 20%-25% of participants use the loan provision.

We also know that participant loans have these positive values for participants:

1. Contribution amounts increase, and participation rates increase, because there is a comfort for the participant in knowing that pre-retirement access via a tax free distribution from their account is available should there be a need to retrieve some of the retirement savings.

2. Consolidation of high interest cost debt is accomplished via a loan, where the interest cost is paid to the participant's retirement savings account.

3. Leakage from retirement savings occurs when a participant terminating employment must repay an outstanding loan, or pay tax on the unpaid debt. Many participants not only lose that part of their retirement account previously taken as a loan, they also have to borrow from high interest cost sources to pay the tax. Leakage is extinguished by loan administration systems which allow for post employment repayment to the retirement savings account.

4. Those who do borrow from retirement accounts typically have a good deal of that account invested in low-yielding money market accounts. Investing one's account in a line of credit earning higher interest than money market accounts, and in a loan to oneself, will increase the yield on that part of the account dedicated to the line of credit.

Participant loans are processed and administered manually, through privately created software, or via payroll deduction systems. A better resource to initiate, process, and administer these loans would be via a patented system involving a bank card and a bank card processing company. Such a company can provide:

1. Monthly Billing Statements
2. 24/7 Access to Loan information via internet or telephone
3. Summary Loan info on participant quarterly statements via a link with the plan vendor (as if Loans were an investment option).
4. Loan repayment collections via ACH, internet, telephone or check.
5. Flexibility in repayment amounts above the IRS mandated minimum repayment schedule.
6. Handling repayments post termination of employment.
7. No specific reason needed for the loan.

Processing and administering participant loans using a partnership between a bank card processing company and a retirement plan vendor is now available