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November 10, 2006

Office of Regulations and Interpretations
Attn: Default Investment Regulation
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Avenue, N.W.
Washington, DC 20210

Re: Default Investment Alternatives Under Participant Directed Individual Account Plans [RIN 1210-AB10]

Ladies and Gentlemen:

MetLife, Inc., through its subsidiaries, provides insurance and other financial services in the United States and internationally. With total assets under management of over $480 billion, MetLife has business relationships with 61,000 employers. MetLife has been a leading provider of stable value products since the 1970's.

MetLife appreciates the opportunity to comment on the regulation proposed by the Department of Labor (the "Department") regarding default investment alternatives under participant directed individual account plans. 71 Fed. Reg. 56806 (Sept. 27, 2006). We share the Department's view that encouraging employers to adopt individual account plans with automatic enrollment features can improve participation in retirement savings plans. Developing clear and workable rules for obtaining fiduciary relief in connection with selecting default investment alternatives will greatly further this goal. We commend the Department for its efforts to reach out to affected constituencies in its development of the proposed regulation and we look forward to continuing to work with you through finalizing this regulation. Nonetheless, we believe that the conditions through which employers obtain fiduciary relief in connection with default investments should be expanded and clarified in several important respects.

I. Stable Value Funds as a QDIA

Of particular concern to MetLife is the exclusion of stable value funds from the regulations list of qualified default investment alternative (“QDIA”). MetLife believes that the omission of this type of product will be detrimental to plan sponsors and particular individuals who may be automatically enrolled in individual account plans.

Section 624(a) of the Pension Protection Act of 2006[1] states that default investments should "include a mix of asset classes consistent with capital preservation or long-term capital appreciation, or a blend of both." Stable value funds clearly are products that offer capital preservation. Certain stable value products can also offer equity-like features that may, in some cases, be more favorable to participants than other available investment alternatives.

[1] Pub.L. 109-280.

The use of stable value funds as a default investment option is currently widespread. According to a survey of 1,900 defined contribution plan sponsors undertaken by the Vanguard Center for Retirement Research, more than 81 percent of plans with default investment options selected a fixed income vehicle for default investments.[2] It would appear that in these cases a determination was reached by the appropriate plan fiduciaries that a stable value fund best served the interests of plan participants in these default situations. It is not clear why the Department is now taking steps contrary to determinations made by ERISA plan fiduciaries that prudently reviewed the available options and utilized stable value funds as their default investment option. The proposed regulation appears to be substituting the Department's judgment about the capital markets for that of a plan fiduciary who may be in a better position to determine what is best at a particular point in time, taking into the account the specific investment

[2] "Selecting a Default Fund for a Defined Contribution Plan," Vanguard Center for Retirement Research, Vol. 14, June 2005.

climate at the time the decision is being made, as well as the unique characteristics of the affected plan participant population.

In some situations, depending on the demographics of the group, cost of the investment, and the general economic climate, a stable value fund may be an appropriate default investment option and plan fiduciaries should be encouraged to consider its use as a QDIA. For example, when a participant dies and there is no direction received from a beneficiary who may need the funds in a relatively short period of time to deal with family expenses, a guaranteed product like stable value may be most appropriate. Also, stable value may be the most appropriate option in "mapping" situations where no direction is immediately received but the plan administrator expects direction to come in fairly quickly once the mapping is finalized. For older individuals with a relatively short time until retirement, stable value funds that preserve principal and generally provide a higher rate of return than a money market account can also be the most appropriate choice. In all these cases, steering the plan fiduciaries solely to equity based products with inherent market risks may not serve Plan participants well.

The above examples are merely illustrative of the point that stable value funds are appropriate under many different circumstances. Plan fiduciaries should be permitted to use their best judgment to determine whether stable value funds are the best QDIA for their plan population or even certain demographics within their larger plan population. The Department should not substitute its judgment for the plan fiduciary's judgment in these situations.

It is also important to note that there are stable value products that allow a plan sponsor to allocate a certain percentage of the assets in the stable value fund to equities. For example, MetLife has an equity fund (an S&P 500 Index) available in its Met Managed Separate Account GIC product. The credited rate reflects the performance of the underlying separate accounts, including the allocation to the equity fund, while providing a guarantee of principal plus accrued interest for participant withdrawals. The use of such a product as a default would offer participants an opportunity to preserve their capital as well as participate to some extent in equity growth.

Other variations on stable value funds will very likely include innovative ways to provide some equity-linked performance with downside protection to participants. By the Department excluding stable value funds from the list of QDIAs, fiduciaries will most likely not make these options available, and there may be less focus on the development of these types of innovative financial products that would best serve plan participant needs.

In sum, the availability of a stable value fund adds a very important feature that can not be achieved with pure equity based products. Stable value funds offer capital preservation with generally higher returns than those earned in money market funds. For many individuals, stable value is an appropriate investment option for at least a portion of their retirement savings. Excluding stable value funds from the list of QDIA alternatives is a disservice to ERISA plans and participants and will be detrimental to Plan participants.

II. Clarification with Respect to Annuities as a QDIA

The proposed regulation is also silent on the use of annuity contracts as default investments. The proposed regulation refers to "investment fund products". While an investment in a variable annuity contract through a separate account should be an "investment fund product" that may qualify as a QDIA, if all of the applicable requirements are otherwise met, the language is not as clear as it should be. Without a specific reference in either the preamble or the final regulation, we are concerned that questions may arise about whether default investments may be made through annuity contracts. We therefore urge you to specify explicitly that annuity contract investments may qualify as QDIA's.

It is important to note that investments in deferred annuities work well as defaults both during the accumulation phase of a participant's working life and during the payout phase after a participant has retired. Annuities appear to be the ideal default investment in many cases, since annuities can be utilized as the accumulation default and the payout default. The regulation should be drafted as broadly as possible to facilitate innovative new financial products, including enhanced benefits under fixed and variable annuity contracts. A number of insurers have introduced exciting new variable and fixed annuity contracts that provide participants with attractive and important financial guarantees. These enhanced benefits typically protect participants against financial risks that could adversely affect their preparedness for retirement. For example, some contracts now offer participants the ability to purchase annuities in installments over their working lives, a feature which would be very beneficial to many participants in ensuring they are provided with sufficient income during their retirement years.

Note, while our comments herein have focused mainly on the treatment of stable value funds and annuities under the Department's regulation, we wish to endorse and lend our support to other comments that we understand will be filed with the Department. In particular, we understand that comments will be filed by the Stable Value Investment Association, American Council of Life Insurers and the Committee of Annuity Insurers asking the Department to extend QDIA treatment to stable value and other principal protected products and raising a number of other important issues. In addition, we understand that the American Benefits Council will file comments requesting that the Department broaden the range of default investments that may give rise to preemption of state wage withholding laws under ERISA section 514(e). We urge the Department to consider carefully the concerns expressed in all these comments.

In the event that the Department determines not to add stable value products to the list of investment products eligible for QDIA treatment, we respectfully request a meeting to discuss our significant concerns.

I would like to thank you for the opportunity to provide our comments on this vital matter.

Please do not hesitate to contact us if you would like to discuss any of our suggestions in more detail.

Respectfully Submitted,

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