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***DOL Finalizes Regulation on Qualified Default Investment Alternatives (QDIA)***

The Department of Labor (DOL) has finalized its regulation on qualified default investment alternatives (QDIAs). The regulation creates a fiduciary safe harbor for plan sponsors to invest plan participants' contributions where no investment direction is given. For the minority of 401(k) participants who do not give investment direction, the DOL has established three QDIA safe harbors for plan sponsors to place these assets: balanced fund, lifecycle/target date fund, or managed account. The regulation does not include stable value as a QDIA safe harbor. However, the DOL explains in the regulation that stable value may still be an appropriate default option for a 401(k) plan, and provides grandfather protections for assets invested in stable value as a default prior to the final regulation.

The government's underlying concern behind the regulation is that an undue bias against using equity funds as default investment options in 401(k) plans has existed. The Department holds the view that the default option will be the long-term investment solution for participants that have not elected an investment allocation and that all default options should include an allocation to equity. For this reason, the regulation provides a safe harbor from fiduciary liability for certain types of equity-based products.

However, the protection afforded by the regulation is limited. DOL emphasized that the selection of the default investment option must be prudent. Therefore, a plan sponsor can still be liable for imprudently selecting a particular equity product even if it is a QDIA. Further, one can question whether or not the government should be promoting one type of retirement investment over another for all plans, especially during a time of significant market volatility.

For these reasons, stable value is still very much a viable choice for a plan's default investment, even if it is not a QDIA. In many cases, there may be compelling reasons to use stable value as a default investment if it best suits a plan's participant population – for example, in cases where the plan sponsor considers participants' human capital as a component of the optimal asset allocation, where participants are closer to retirement, and for participants that tend to be more risk-averse. In these cases, it may not be appropriate to use a default with potentially greater volatility. The compelling criterion of prudence is required for selecting all default investment options.

As stable value funds have been used by some as a preferred default investment, it is anticipated that based on these reasons and the need to meet the prudence criterion, stable value will continue to play a viable role as a default investment alternative in 401(k) plans for the minority of 401(k) investors who do not give investment directions. It is estimated that between five to ten percent of stable value fund assets are derived from defaulted investments.

For the overwhelming majority of 401(k) investors which actively select their investments stable value funds remain a core investment choice because of their principal preservation and steady, predictable, bond-like returns. Stable value funds are included in half of

employee-directed 401(k) plans, and represent approximately 20 percent of 401(k) plan assets. Stable value funds' use in defined contribution plans is due to an increasing desire to avoid risk of loss of savings as the population ages, concerns about increased market volatility and variability, and stable value's ability to help 401(k) investors diversify their portfolios to reach their desired retirement goals.

The Stable Value Investment Association (SVIA) is the voice for the stable value community which consists of both plan sponsors and stable value fund providers, which include investment managers, bank issuers and insurance company issuers. SVIA is dedicated to educating public policymakers and the public about the importance of saving for retirement and the contribution stable value funds can make toward achieving a financially secure retirement. As of December 31, 2006, SVIA members managed over \$413 billion invested in stable value funds offered in 110,000 defined contribution plans that cover over 25 million plan participants.