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By Paul Schott Stevens

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Last August, President Bush signed into law the Pension Protection Act of 2006. One of its central provisions, designed by the Labor Department, was to make it easier for employers to auto-enroll employees into defined-contribution retirement savings plans like the 401(k).

The current Labor Department proposal gives employers the chance to choose from three "default" options--lifecycle funds, balanced funds and individually managed accounts, all of which make sense as long-term investments seeking to maximize retirement savings.

Not included among these default options are so-called "stable value funds" (SVFs). These funds typically hold investment-grade bonds and interest-bearing insurance contracts known as GICs, or guaranteed insurance contracts. SVFs are marketed by life insurance companies. Given the omission from the Labor Department's default auto-enrollment options, it is no surprise that the life insurance industry has mounted a full frontal assault to get the DOL to reconsider.

Stable value funds emphasize principal protection and are entirely appropriate for short-term holdings or as a fixed-income portion of a balanced portfolio. In fact, many 401(k) plans offer stable value funds, but only about 13 percent of 401(k) assets are invested in stable value products.

Stable value funds might appeal to an employee's desire for safety, but they are not appropriate as a long-term investment for the bulk of a worker's retirement assets. One thing is as certain as death and taxes: any investment product that essentially guarantees it won't lose value cannot also guarantee that it will gain much value. Stable value funds are no exception. Given their historically low returns--about 2.1% annually after adjusting for inflation and investment costs, compared with 5.5% for equity investments--they do not offer the kind of appreciation over time that most workers need in a retirement account.

The Labor Department's proposed list of default investment options--lifecycle funds, balanced funds and individually-managed accounts--recognizes this fact. Lifecycle funds are particularly appropriate for many workers, because they reallocate investors' assets automatically as they age--more equity exposure for younger investors, more reliance on bonds for older ones.

Let me be clear: the mutual fund industry has much to gain under this proposal. But more importantly, America's workers have much to lose if their retirement savings are placed in investments that emphasize safety over long-term growth.

Investment Company Institute economists compared how a 30-year-old today would fare with lifecycle funds versus stable value funds by running a computer analysis of 5,000 possible scenarios for the stock and bond markets over the next 36 years. In almost 90 percent of those possible futures, the lifecycle fund's balanced blend of equities and fixed-income instruments delivered a higher 401(k) balance at retirement than the average stable value product. On average, the 401(k) invested in a lifecycle fund would yield twice the retirement income as would the stable value product.

Getting this right is very important. Imagine that you were auto-enrolled in a 401(k) at age 30 and your payroll deductions were invested in a stable value fund. Then, 30 years later, you discover that you could have reaped twice the returns if your employer had chosen a more appropriate, albeit more volatile, long-term investment.

Policymakers and the media have focused more on how to prepare for the coming wave of baby boom retirements than on the even larger population cohort right behind the boomers: the 20-to-44-year-olds. This cohort numbers 104 million, according to the Census Bureau. The implications of their aging and eventual retirement are many and profound. One obvious way to help this enormous

bulge of working-age people save for retirement is to expand participation in 401(k) plans and similar employer-sponsored retirement vehicles.

America's retirement policy should be oriented toward the long term. That means workers should be encouraged to start saving early in their careers, and to keep their retirement assets working for them by rolling over their accounts when they change jobs. That also means treating 401(k) savers as long-term investors.

Congress has strongly endorsed this principle, and the Labor Department embodied it in its proposed regulation. Together, they should reject the insurance industry's special pleading--and insist that the interests of young American workers and the generations that follow them come first.

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Paul Schott Stevens is president and CEO of the Investment Company Institute, the national association of the mutual fund industry. Mutual funds hold more than half of the assets in 401(k) plans.

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