

**UNITED STATES DEPARTMENT OF LABOR  
EMPLOYEE BENEFITS SECURITY ADMINISTRATION  
PEER REVIEW FOR DEFAULT INVESTMENT SAFE HARBOR  
REGULATION  
March, 2006**

**CHARGE**

In accordance with the Office of Management and Budget's Final Information Quality Bulletin for Peer Review (the Bulletin), 70 FR 2664 (Jan. 14, 2005), the Employee Benefits Security Administration (EBSA) of the Department of Labor is conducting a peer review of certain "highly influential scientific assessments." EBSA intends to disseminate these assessments in connection with the promulgation of a Notice of Proposed Rulemaking to create under Title I of the Employee Retirement Income Security Act of 1974 (ERISA) a regulatory safe harbor for the investment of participant contributions to participant-directed individual account pension plans when participants fail to provide investment direction. This charge provides instruction to the selected peer reviewers as required by the Bulletin.

Attached as appendices to this charge are documents that contain or describe the "highly influential scientific assessments" to be reviewed, as well as the proposed rulemaking to which the information is pertinent. **Note: This information is distributed solely for the purpose of pre-dissemination peer review under applicable information quality guidelines. It has not been formally disseminated by EBSA. It does not represent and should not be construed to represent any agency determination of policy.**

The "highly influential scientific assessments" for which peer review is sought consist of the methods and data used to predict the likely effects on pension balances and income of: 1) the wider adoption of auto-enrollment, and 2) the shift in the allocation of pension portfolios towards higher-return investments.

EBSA asks each reviewer to evaluate the overall analysis of pension effects, to consider the specific questions below, and to provide responsive advice to EBSA in a report that satisfies the transparency requirements contained in the Bulletin's Paragraph II.5. The report should describe the nature of the review and its findings and conclusions.

**Questions:**

1. The assessments incorporate estimates generated by a pension accumulation model known as PENSIM. Is PENSIM adequate to

estimate aggregate 401(k) balances, pension income, the distribution of pension income, pension plan participation rates, and employer and employee contributions? Further, are appropriate assumptions (e.g., rate of inflation, rate of investment returns, current 401(k) participation rates and employer and employee contribution rates, eligibility rates, and take-up rates) chosen to adequately apply the PENSIM model with the above task in mind?

2. In order to acknowledge that the long-term effects of the regulation are uncertain, the Department has developed high- and low-impact estimates. The low-impact scenario assumes that auto-enrollment may cover 35% of eligible workers; the high-impact scenario assumes 45% coverage. Are these reasonable high- and low-impact scenarios?
3. The application of the PENSIM model assumes that current default investment assets are invested disproportionately in low risk money market funds (e.g., Treasury bonds), while future assets of default investment alternatives would be invested in vehicles such as life-cycle funds whose mix of money market funds and equities would be dependent on the employee's age. Are the assumptions with respect to asset allocation and their associated rates of return reasonable?
4. Based on the foregoing, what level of confidence would you place in the PENSIM estimation of current and future pension income and assets of private-sector employees and retirees?

In accordance with OMB guidelines, EBSA requests that the reviewers limit their advice to an evaluation of the scientific validity, relevance, and utility of the estimates and of the scientific information on which they are based. The reviewers are further requested to ensure that the report clearly identifies and characterizes any pertinent scientific uncertainties and explains the potential implications of such uncertainties for the technical conclusions. Reviewers are not requested to, and should not, provide advice on the policy decisions contained in the proposed rulemaking.

EBSA will disseminate to the public on its website information pertinent to this peer review as required by the Bulletin in Paragraphs II.5 and III.6. This information will include this charge, the names and affiliations of the reviewers, a summary of the reviewers' credentials and relevant experience, the peer reviewers' reports, and EBSA's response to them. In addition, EBSA will discuss this peer review in the preamble to any subsequently published related rulemaking.