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**Sent:** Tuesday, May 04, 2004 5:07 PM  
**To:** EFAST2@DOL.GOV  
**Cc:** Imhoff, Pat  
**Subject:** EFAST Comments



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May 3, 2004

EFAST Program Office  
Employee Benefits Security Administration, Room N5459  
Attn: EFAST RFC  
U.S. Department of Labor  
200 Constitution Avenue NW  
Washington, D.C. 20210

RE Form 5500 Electronic Filing Issues and Alternatives

Dear Sir or Madam:

This is in response to the request for comments on the ERISA Filing Acceptance System (EFAST) electronic filing issues and alternatives. We can certainly understand the complexity and cost in processing the Form 5500 annual reports for the millions of employee benefit plans. We appreciate the opportunity to provide comments and input on the changes under consideration for EFAST electronic reporting.

The Principal Financial Group® (The Principal®) is a diversified family of financial service companies with total assets under management of \$144.9 billion as of December 31, 2003. More employers choose The Principal for their 401(k) plans than any other bank, mutual fund or insurance company in the United States. A member of the Fortune 500, The Principal serves 614,000 individual policyholders, 74,000 group employer clients, and 49,000 pension customers (employers). Princor Financial Services Corporation serves approximately 800,000 mutual fund shareholder accounts and Delaware Charter Guarantee and Trust Company, conducting business as Trustar® Retirement Services, serves as directed trustee to more than 200,000 retirement and savings accounts. In all, 15 million customers (business, individuals and their dependents) worldwide rely on the member companies of the Principal Financial Groups for their financial service needs. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG.

## **Comments**

### **1. Method of Filing**

We wholeheartedly agree with the necessity of making electronic filing more convenient and beneficial for all users and stakeholders. The flow of the preparation of the Form 5500 is complex with multiple parties involved at various stages. The designs included in the proposal imply that the plan sponsor is preparing the Form 5500 based on

information from service providers. In actuality, the service providers are initiating and preparing the Form 5500 and then sending it to the plan sponsors for approval. Recognizing that distinction could change the structure of the EFAST platform.

- **Direct Electronically on the Web –**

As mentioned above, this proposal implies the plan sponsor is completing the Form 5500. For this proposal to take hold it will need to allow:

- Service Provider the ability to initialize the Form 5500 filing to avoid the plan sponsors having to key in the information needed from various parties.
- Batch import of data for multiple plan filings from service providers
- Notification of the plan sponsor via email when the filing has been initialized and as parties add material to the filing.
- Accept information and attachments from multiple parties. For example, Schedule A's from various insurance companies, Accountants' Opinion and Financial Reports, the actuary's Schedule B and supporting attachments, and Schedules P from trustees and custodians.
- Allow for the delayed final submission to EFAST when plan sponsor determines the filing is complete.

The advantage to this proposal is that it establishes a platform for collecting the various pieces from all parties involved.

The disadvantages are:

- Plan Sponsors may see it as more complicated. They want one stop handling – they may lose track of the status of the filing when waiting for various pieces to arrive from various parties and not get it officially submitted to EFAST records.
- No incentive for Plan Sponsors to go to a web based system if it is easier to sign the paper form and mail it to EFAST.
- Doesn't provide individualized instructions. We provide information to our clients about how certain questions are answered or provide special instructions. This delivery method would need to have communication channels within it to assist in the flow of filing in the various stages.
- Makes the continuity of the annual report more difficult since the changes made by the client to the filing will not be forward back to the service provider to include the following year.

Some items that would need to be considered are:

- Would the plan sponsor be able to maintain the form in electronic file format rather than the current requirements to print and maintain a signed copy of the Form 5500 filing in their office?
- Submission to the DFVC would have to be reconfigured if a web based filing systems was used.

While this proposal on the surface might sound appealing, we don't see it as being practical. There are too many parties involved in preparing various pieces that need to be coordinated together. This method would be more difficult for plan sponsors who depend on service providers to complete their 5500 filing.

- **On the Web using software developed by third parties**

We appreciate that the government agencies recognize the value-added support of Form 5500 preparation from service providers and software vendors. It is encouraging to see that the EBSA would provide support to software vendors in developing their products.

Since the Principal Financial Group<sup>®</sup> is not a software vendor and have developed our own proprietary system in support of 5500 preparation and delivery, we would hope that the EBSA's offer of support in developing the electronic filing products would extend to assisting in our interface with the EFAST system. We support the idea of using the Intranet as the transmission vehicle for electronic filing as long as we are able to submit the transmission in batch and not by each individual filing.

The Internet is already tightly woven into the services we provide our clients. Plan sponsors access and submit their retirement plan information on our web site. We feel it is important for us to continue to maintain that website for our clients and continually look for ways to improve and expand on that service.

- **Direct on paper using government printed forms**

We can understand the Agencies consideration of eliminating computer generated hand print forms. We do not disagree with the discontinuation of computer generated hand print forms but requiring electronic filing is a tremendous leap in consideration of the signature requirements for the various schedules. Initially, requiring the transition to the machine print version would be a more reasonable expectation. Notification of at least one year prior to the enforcement of the requirement would be necessary to allow companies to make the necessary changes in their systems to produce the appropriate form format.

Maintaining some version of paper filing may be beneficial since to plan sponsors the annual cost of Form 5500 software may be prohibitive. There are times that plan sponsors request changes to the Form 5500 that we are unable to accommodate. We instruct the plan sponsor to obtain paper forms from their local IRS office and manually complete the forms with their requested changes. Depending on the overall platform for delivery, it may be necessary to maintain the paper forms for limited use.

## **2. Simplification of the Electronic Signature and Authentication Procedure**

We find the biggest impediment to increasing the participation of our clients in the electronic reporting of Form 5500 is the electronic signature process. Signatures are required for the Form 5500, the Schedules P, Schedule B and the Schedule SSA. While the EFAST electronic signature helps in the electronic submission of the 5500 filings, it leaves the plan sponsor with the collection and maintenance of the signatures in paper format in their office. Here are some items to consider:

1. Reconsider the necessity of signatures. Personal taxes are accepted without signing a form or obtaining official pin numbers. Are the signatures really necessary or required by law? Review the necessity of the signatures on each of the schedules. Why is a separate signature needed for the Schedule SSA? Is the Schedule P information and signature really needed?
2. Issue a simpler electronic signature (one PIN) or allow the plan sponsor to choose a PIN that would be easier for them to remember and maintain. .
3. Use a service such as Veri-Sign or other authentication service to ensure the validity of the signer.
4. Allow the use of e-Signature that is currently allowed for plan documents.
5. Provide a web based request for obtaining an electronic signature. Returning the electronic signature immediately would bring the electronic filing close to one stop filing. Offer the option for "Forgot your password?" like other web sites offer so they can receive an email of their forgotten password or another one issued immediately online.

## **3. Mandatory Electronic Filing**

Consider phasing out the paper formats over a period of time with a final date in the future (for example in 5 years) when all plans must file electronically. This would allow sufficient time for all parties involved to work out the logistics of the coordination of the various pieces to the filings. For example, first require the electronic reporting of small defined contribution plans that do not require a Schedule P or need multiple Schedules A. Then expand it gradually.

Requiring all 5500 returns to be filed electronically all in one year would be overwhelming to the entire industry including the EFAST office and would result in the late submission of 5500 annual returns. There would be just too many issues to resolve in the time frame that would be necessary to submit timely 5500 filings. If you recall, the transition to the new form formats for the 1999 reporting year was a tremendous effort for all of us involved in the 5500 arena. Mandating electronic delivery would be an even larger and more difficult task due to the logistics involved in the coordination between various parties.

#### **4. Charging of Filing Fees**

Charging filing fees would add one more complication to the already complex coordination of the Form 5500 and adds one more expense to the plan sponsor maintaining the plan. As electronic filing becomes more mainstream, it would be understandable to charge a fee for paper filings but not until then.

#### **5. Use of Internet Filing Data Standard such as XML**

We fully support the use of XML as the standard for Internet filing data.

#### **6. Improved Handling of Third Party Attachments and Attestations**

The coordination of these attachments is another major impediment to electronic filing. While the Principal Financial Group has developed a method for including attachments into electronic filings, not all actuaries and accountants are willing to provide their attachments in electronic filing format. The concern is the security of the information. It is true that there are ways to secure the documents but for most of us these technical systems issues escape us and are not a part of our business needs. Plan sponsor may not have the systems sophistication to accommodate this.

**IQPA Report -**

Of the methods proposed, the first option of the IQPA providing an electronic file is the most practical. Requiring the plan sponsor to transcribe the information from the IQPA's report would be an unnecessary burden on the plan sponsors and would be prone to errors. The last option relating to scanning the IQPA's report in a PDF file format requires equipment the plan sponsor may not have access to.

**Actuary's Schedule B & Attachments -**

The electronic file format is the most favorable option. However, there will be reluctance from actuaries since they cannot "see" what is being filed. The security of the data in the file is the main issues.

We do not recommend the option of the plan sponsor transcribing the information from the Schedule B into an electronic file format. This would cause unnecessary burden to the plan sponsor.

#### **7. Improved Consistency of Treatment of Paper and Electronic Filings**

We support the proposal for consistency of the treatment of paper and electronic filings.

We are most definitely not in agreement with the proposal to require paper filings to be submitted 4 months past the end of the plan year. Here are the reasons:

- Plan sponsors have until the corporate taxes are due to determine and make the discretionary contribution. Our clients want their total plan year contributions reflected on the Form 5500. We currently wait for at least 90 days after the plan year-end to prepare the Form 5500 in anticipation of additional deposits. Would the corporate tax extension still apply to the Form 5500 deadline?
- Since we are both the preparer of the Form 5500 as well as the software vendor obtaining approval of the Form 5500, the annual update of the 5500 forms is a 3 month project from December, when we receive the EFAST Forms Specifications, to early April, when we implement our EFAST approved forms and begin preparing Form 5500 filings for our clients. Meeting a 4-month deadline for paper filings would be impossible.
- There is a considerable amount of monitoring in the collection of the electronic signature for electronic filing. In our current electronic filing process, we ask the plan sponsor to approve their Form 5500 we prepared for them and then provide their electronic signature. If the electronic signature is not received, a follow-up letter is sent requesting it. If the electronic signature is still not received, another letter is sent to the plan sponsor indicating they must file their return on paper. This letter has to be sent soon enough to allow the plan sponsor time to submit the return on paper. Requiring a 4month deadline would not allow sufficient time to obtain the electronic signature and meet the filing deadline.

#### **8. Centralized Web-based Dissemination and Public Disclosure of Form 5500 Series Data.**

We are in support of this proposal. We currently use the 2 web sites that offer retrieval of Form 5500 data. We find this information helpful in assisting our clients in responding to correspondence from the EFAST office and the IRS as well reviewing of the plan information when a plan transitions from another service provider to us. A government agency sponsored website providing public disclosure of the forms would be beneficial.

#### **9. Require Each Plan Filing Form 5500 to obtain a Unique EIN.**

We are in favor of this proposal. We currently have difficulty collecting the correct plan number when plans transition to us for services. It appears that parties involved in the transition do not understand the critical nature of the number for Form 5500 reporting. Providing a unique number to each plan would be beneficial. We would recommend avoiding calling it an EIN so as not to cause confusion with the Plan Sponsors EIN.

#### **10. Separation of Certain Information from the Form 5500 Series Package.**

While we recognize that removing some of the schedules from the Form 5500 would help with the public disclosure issues, it would cause more work and costs to service providers and plan sponsors. It would require more filings to more agencies and make it more difficult and time consuming for plan sponsor to meet the ERISA requirements.

If you would like to discuss any of these comments, please contact Pat Imhoff at (515) 247-6328 or email her at [imhoff.pat@principal.com](mailto:imhoff.pat@principal.com).

Sincerely,

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