



March 7, 2003

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
Washington, DC 20010
Email: e-ORI@pwba.dol.gov

Re: Comments on Automatic Rollovers of Plan Distributions

Dear Sir or Madam:

This letter is in response to the Employee Benefits Security Administration's (EBSA's) request for comments regarding appropriate standards for the development of safe harbors relating to the automatic rollover of small amount distributions to an IRA.

The Principal Financial Group® (The Principal®) is a diversified family of financial service companies with total assets under management of \$120.2 billion. More employers choose The Principal for their 401(k) plans than any other bank, mutual fund or investment company in the United States. A member of the Fortune 500, The Principal serves 619,000 individual policyholders, 75,000 group employer clients, and 40,000 pension customers (employers). Princor Financial Services Corporation serves 637,000 mutual fund shareholder accounts and Trustar Retirement Services serves 450,000 retirement accounts. In all, 13 million customers (businesses, individuals, and their dependents) worldwide rely on the member companies of the Principal Financial Group for their financial services needs. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG.

Comments

The Principal agrees with the requirement to automatically roll over an involuntary cash-out of a terminated participant's qualified plan distribution to an IRA instead of paying it in a lump sum. This will help to preserve retirement savings. Some plans are already using this provision. Our experience is that many participants do not respond to the notification when an involuntary distribution is payable simply because they do not want the money in cash and they either do not know where to invest the money themselves or they don't want to take the time to find an IRA provider. Many participants want to maintain the tax-deferred status of the money so they simply do not respond. Unfortunately, in the past, this has resulted in the funds being paid to the participant and

thus not being used for retirement. Automatically rolling over the involuntary distribution helps the plan participant preserve retirement savings.

Standards and safe harbors for automatic rollovers should not be restrictive. The rules and guidelines must be broad, give fiduciary relief, and allow compliance with as low a cost as possible for employers, employees, and providers. If the rules are complicated only a few providers will accept the rollover. This would also lead to higher costs and fees that could deplete the value of the funds. In turn, plan sponsors may elect to remove the involuntary distribution provision from their plan.

Standards for safe harbor entity

We recommend that any IRA provider be a safe harbor entity. The Plan Fiduciary must select the entity based on the reasonableness of the fees charged, the reputation of the provider, the quality of service provided, and the solvency and investment results of the provider. The provider must disclose fees and other information that will enable the fiduciary to make a prudent decision. The fiduciary also must have the responsibility of reviewing the decision periodically and choose a different provider, if necessary. The safe harbor should allow the retirement plan service provider to also be the IRA provider. Often, selecting the same IRA provider as the plan service provider would result in a low cost transaction for the participant since the transfer of funds could be seamless. This will make it easier for the employer to comply and offer the rollover at a low cost for the participant.

Safe harbor initial investment

We suggest the EBSA allow any reasonable investment as a safe harbor initial investment. One safe harbor investment should be an investment that protects the principal, for example, a money market fund. In addition, we suggest an acceptable initial investment mix to be investment options similar to the options the participant was using under the retirement plan. In some situations, a participant may have a small investment in a large number of funds under the retirement plan. Moving accounts to similar investments in the IRA should include the flexibility to allow investment in funds based on investment style so that the IRA could set a minimum investment amount (for example, \$500) for each investment option. There is a notice given to participants 30 days before the rollover. The notice should include wording, "If you fail to change your investment within 30 days, you are deemed to have consented to the investment selection."

Establishment, Termination, Maintenance Fees

The fees charged by the IRA provider should be reasonable. They should include the cost of establishing and maintaining the IRA. Establishment costs could vary greatly depending on the provider and the investment. However, such costs will generally be less when the plan sponsor chooses the plan service provider to be the IRA provider. The plan sponsor should not bear the cost of the IRA since the plan participant has the option of receiving the distribution in a lump sum in lieu of the automatic rollover. Factors for determining the administration cost should include the administration and service costs of maintaining the account, preparing reports, answering questions and inquiries. This also

includes any additional services such as telephone voice response systems, customer service representatives, retirement planning software, and any available computer services. Providers also should be able to charge a small account fee, for example, a \$10 quarterly fee for accounts of less than \$2,500.00. This may encourage participants to make additional investments into their IRA.

Prohibited transaction relief

Revenue Ruling 2000-36 states that the DOL has said that “the selection of an IRA trustee, custodian or issuer and IRA investment for purposes of a default direct rollover would constitute a fiduciary act subject to the general fiduciary standards and prohibited transaction provisions of ERISA.” Prohibited transaction relief would be necessary so that a plan sponsor could choose an affiliate or itself as the IRA provider similar to the existing exemption that allows a plan sponsor to invest in its own funds for the retirement plan.

The Principal appreciates the opportunity to offer comments that will aid the Department of Labor in developing regulations that relate to the automatic rollover of small amount distributions to an IRA. The objective of the safe harbors is to provide a low-cost option that will promote preservation of assets for retirement. If you have any questions or wish to discuss these comments, please call me at the number below.

Sincerely,

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