March 31, 2004

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Avenue NW
Washington, D.C. 20210
Attn: Automatic Rollover Regulations
Email: e-ori@dol.gov

Dear Sir/Madam:

Thank you for seeking comments on the proposed regulations on automatic rollover legislation. We appreciate the opportunity to provide comments before regulations are finalized.

The Principal Financial Group® (The Principal®) is a diversified family of financial service companies with total assets under management of $134.8 billion, as of September 30, 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, 77,000 group employer clients, and 51,000 pension customers (employers). Princor Financial Services Corporation services approximately 700,000 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, 14.9 million customers (business, 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 between $1,000 and $5,000 to an IRA instead of paying it out in a lump sum. This will help to preserve retirement savings. We do not, however, agree with the idea of extending the automatic rollover to amounts less than $1,000. Such small amounts would be costly to maintain, an administrative burden, and of small benefit to the employee.

We commend the Department for the provisions included in the proposed regulations. We agree that standards and safe harbors for automatic rollovers should not be restrictive. The rules should be cost effective and easy for the employer, employees, and service provider to comply. If the rules are complicated and expensive for the provider, only a few providers will accept the rollover. This would lead to higher cost and difficulty for employers to find a provider that will accept the rollovers.

Permissible Fees and Expenses

The proposed regulations require financial institutions to meet two conditions on the fees and expenses for the establishment and maintenance of rollover accounts. First, the fee must be consistent with the fees and expenses charged comparable individual retirement accounts that are not subject to the rollover provision. Second, expenses could not exceed the income earned by the automatic rollover account. We feel the first condition is reasonable. Today's IRA market is very competitive which keeps rates relatively consistent among providers.

However, the second condition of limiting the expense to the income earned would greatly reduce the number of providers that would accept the rollover for two reasons. First, in times of low short-term rates, like today, a provider could not recoup its expenses by limiting the expense to the amount of income. Today's annualized money market rate is less than 1%. This means, an institution would need to limit the annual expense charge to less than $10 on a $1,000 rollover account. Such a fee limitation would cause many large, financially secure institutions to refrain from offering such accounts. Because of this, plan sponsors could have difficulty finding a secure institution to receive the automatic rollovers from their plan. Instead, we suggest providers could charge a maximum fee of $10 quarterly. We feel this maximum fee would be sufficient to cover expenses.

Second, imposing a separate fee schedule for automatic rollover accounts would require providers to make significant system changes for recordkeeping these accounts. The rollover IRA accounts would need to use a different system than non-rollover accounts. Systems would need to compare the expense amount against the income before the expense could be charged. This would require a dual system that would add administrative cost to be passed along to the all IRA accounts.

It's our opinion that the first condition that the fee must be consistent with the fees and expenses charged comparable individual retirement accounts that are not subject to the rollover provision would provide participants and fiduciaries adequate protection from being charged unreasonably high fees. Using the same fee schedule for all IRA accounts would promote consistency and not add to administration costs. Since the plan fiduciary is responsible for selecting a financial institution whose fees are reasonable and consistent in the market, the second condition is unwarranted.

Fiduciary Select One IRA Provider Per Plan

We suggest the Department confirm that a fiduciary must select only one IRA provider per plan. Administration costs would increase if a fiduciary could select an array of financial institutions

to receive rollovers with the thought that only one institution and one investment might not be appropriate for all participants.

The Principal appreciates the opportunity to offer comments. The objective of the safe harbors is to provide a low-cost option to promote preservation of assets for retirement. We feel the Department is close to finalizing regulations to accomplish that goal. If you have any questions or wish to discuss these comments, please call me at the number below.

Sincerely,

James Lang
Compliance Director
Retirement and Investor Services
Phone (515) 247-6200
1-800-543-4015 ext. 76200
FAX (515) 246-5423
lang.jim@principal.com