0006

May 3, 2005

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5669
U.S. Department of Labor
200 Constitution Avenue NW
Washington, DC 20210
Attn: Abandoned Plan Regulations

RE: Department of Labor Proposed Orphan Plan Regulations

Dear Sir/Madam:

Thank you for seeking comments on the proposed regulations that provide rules for terminating abandoned plans. We appreciate the opportunity to provide comments before regulations are finalized.

The Principal Financial Group® (The Principal®) is a leader in offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance and banking through a diverse family of financial services companies. A member of the Fortune 500, the Principal Financial Group has $156 billion in assets under management and serves some 14.7 million customers worldwide from offices in Asia, Australia, Europe, Latin America and the United States. Among the members of The Principal, Principal Life Insurance Company serves 614,000 individual policyholders, 74,000 group employer clients, and 49,000 pension customers (employers). Princor Financial Services Corporation services approximately 800,000 mutual fund shareholder accounts. Principal Financial Group, Inc., is traded on the New York Stock Exchange under the ticker symbol PFG.

Comments

Definition of Qualified Termination Administrator

The current definition of a Qualified Termination Administrator (QTA), as defined within the Department of Labor (DOL) proposed abandoned plan regulations, is:

1. a person or entity who is eligible to serve as a trustee or issuer of an individual retirement plan in accordance with the Internal Revenue Code (IRC) § 7701(a)(37), and
2. holds assets of the retirement plan on whose behalf it will act as the QTA.

The current definition limits those who can currently act as a QTA and does not allow an insurance company to act in this capacity. We would like to see the definition of QTA expanded to include those entities that meet the requirement of IRC § 401(f).

Limited Liability

The abandoned plan proposed regulations state that the QTA would have "limited liability..." when terminating these plans. Within the proposal the Internal Revenue Service (IRS) has advised the DOL that they will not challenge the qualified status of any plan terminated under the regulations or take any adverse action, including the assessment of any penalties, against a QTA who follows the termination requirements outlined in the proposal. However, this does not appear to relieve a QTA from any adverse action that a participant, trustee or plan sponsor may decide to take against them.

Because there is some potential liability upon acting as the QTA when terminating an abandoned plan, fewer entities may be willing to take on this role and act for the benefit of the participants in the retirement plan. To encourage more people/entities to act as a QTA, limiting their liability further should be addressed in the final regulations.

Rollovers

One of the requirements of the proposed regulations is in the event a participant or beneficiary fails to make an election upon being notified of the plan termination, his or her account balance will be rolled over into an individual retirement plan (i.e. individual retirement account or annuity). Many service providers do not accept rollovers of balances less than $1,000. If QTAs were unable to make distributions of these small amounts, it would make it impossible to fully terminate a plan.

Plan Sponsor Notification of Plan Termination

The proposed regulations go to great lengths to state the plan sponsor is still responsible for their duties under ERISA, especially with respect to the reporting and disclosure requirements of Title 1, Part 1. However, § 2578.7(b)5 does not require a statement to that effect. The notice requires a statement that the plan sponsor may be personally liable for costs, civil penalties, excise taxes, etc as a result of acts or omissions with respect to the plan. Plan sponsors, upon receipt of this notice from the QTA, may think they are no longer responsible for the plan. Requiring in the notice an affirmative statement that plan sponsors must continue their responsibilities under ERISA may warrant better results.

We would like the regulations to apply in those cases where the plan sponsor has already implemented the termination process but has subsequently become unable to maintain the plan or cannot be located (orphaned plan). It would be advantageous for the entity holding the assets of an already-terminated plan to have available to it a process of entering the abandoned plan "system" so it can take advantage of the benefits offered to a QTA. If these regulations would apply to orphaned plans, in the event the plan sponsor does not acknowledge receipt of the QTA's plan termination notice, the QTA would need to know what to use as the starting date when determining the 30 day window.

Plan Amendments

According to ERISA Regulations § 2578.1(d)(3), the terms of the plan are considered amended, for purposes of Title 1 of ERISA, in order to allow the QTA to terminate the retirement plan and process final distributions. However, in certain situations it may be necessary for the QTA to amend the plan in order to complete the plan termination. We would like clarification as to whether any standard amendments made at plan termination could/should be made by the QTA to facilitate plan distributions.

For example, the proposal indicates the IRS will agree to the provisions of the regulation if certain conditions are met. One of the conditions is for the QTA to determine whether the survivor annuity requirements of IRC § 401(a)(11) and § 417 apply to any benefit payable under the plan. We assume the IRS intends for the QTA to operate in accordance with these rules.

A majority of our client plan documents incorporate annuities as optional or required forms of benefits. Since the plan document includes annuity options, distributions of $5,000 or more cannot be forced out of the plan. However, this restriction does not apply to distributions at plan termination when a plan does not include annuity options or the employer or a controlled group member maintains another plan.

In the event of an abandoned plan, we would like the QTA to have the ability to amend the plan to remove the annuity options in order to facilitate the distribution amounts owed to those participants who 1) fail to respond to communications regarding their distribution options upon plan termination or 2) cannot be located. Absent removal of the annuity options, the abandoned plan would continue indefinitely.

Another example involves the handling of any forfeitures existing in the retirement plan at termination. Treasury Regulation § 1.411(d)-2(a)(2)(i) gives guidance that any previously unallocated funds should be allocated to the participants remaining in the plan upon complete termination of the plan. However, the plan document in some cases state that forfeitures shall be used to offset future employer contributions; thus requiring a plan amendment to allow for the allocation. We would like the QTA to have the ability to amend the plan to reallocate any remaining forfeitures if required to complete the plan termination.

As much as we would like to believe that all abandoned plans have been updated for current legislation, this is often not the case with these plans as the fiduciaries failed or refused to sign the necessary amendments. We would like clarification as to whether the QTA is required to amend the abandoned plan for any new legislation at the time of the termination of the plan. We would be interested in hearing the stand the IRS would take regarding not amending terminating retirement plans for legislative updates in abandoned plan situations.

Assuming the terminating abandoned plans must be amended for the situations provided above or for other situations, the QTA should have limited or no liability for amending plans to comply with applicable law.

Electronic Submission

Within the proposed regulations, the DOL invited comments as to whether or not electronic submission of the abandoned plan notification by a QTA should be mandated. Without knowing the internal operation of other potential QTAs, mandating electronic submission of this notification may prove to be cumbersome or costly for some and discourage them from acting as a QTA. It may prove to be more effective to offer electronic submission as an option rather than a requirement.

Participant Notification

Regulation § 2578(d)(2)(v)(A) states that the notice provided to plan participants of a plan termination should include a description of the distribution options available under the plan.

Principal Life Insurance Company currently provides participants who have reached a distributable event under the plan with a booklet that contains the required distribution forms and applicable notices based on the type of retirement plan. This booklet outlines the various benefit options available to each participant under that plan and advices them of the tax consequences of each type of retirement benefit.

Requiring this explanation in the letter duplicates the information already provided in our Pension Benefit Choices Guides (i.e. booklets). As a matter of saving time and costs, we would like the DOL to allow for a booklet of this kind to accompany the participant notification rather than requiring the inclusion of this information in the actual notice itself.

Special Terminal Report

The Special Terminal Report for abandoned plan regulations § 2520.103-13(e)(1) specifically exempts the QTA for any requirements under ERISA Title 1, Part 1, other than the filing of the Terminal Report. The regulations do not address 404(c). We would like to see added to the regulations that the QTA would be exempt from 404(c) requirements.

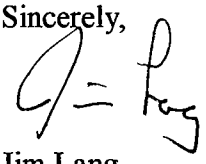
Conclusion

The Principal commends the Department of Labor for tackling this topic. Once a plan has been abandoned, service providers and investment managers do not have settler or fiduciary powers to terminate the retirement plan and typically have a limited role, such as the management of a portion of the plan's assets. In short, these entities do not have sufficient powers to wrap up the operations of a retirement plan. In addition, service providers acting on their own to close out an abandoned plan operate at significant risk and expense.

These regulations, once finalized, should significantly decrease the number of abandoned plans and relieve service providers, investment managers and participants of the cost of continuing to maintain these plans.

If you would like to discuss any of these comments, please do not hesitate to contact me at the number shown below or contact Ann Drown at (515) 362-0940.

Sincerely,



Jim 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

711 High Street
Des Moines, Iowa 50391-0001