

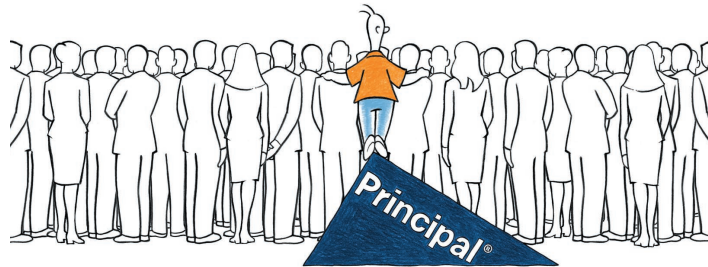
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RETIREMENT PLAN TRENDS REPORT

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# The Total View

# 2009





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A MESSAGE FROM THE CHAIRMAN, PRESIDENT AND CEO OF

# The Principal

*During a time of unprecedented market volatility, our research indicates that retirement plan participants and plan sponsors showed surprising and remarkable restraint in their behavior by staying the course and focusing on their long-term retirement goals in 2008.*



During the six years the Principal Financial Group® has presented *The Total View* we have seen many changes in the retirement industry. However, we have never seen a year like 2008. Not only did the markets suffer a steep decline, but also retirement plan participants and plan sponsors faced new obstacles that squeezed their budgets and made it a challenge to save for retirement.

That is why it is impressive to see participants and plan sponsors realize the importance of saving for retirement by continuing to focus on their long-term goals.

That trend is just one piece of valuable insight in *The Total View 2009*. As one of the nation's leading providers of total retirement solutions\*, The Principal® is pleased to bring you one of the most comprehensive reports in the industry on retirement plans — based on retirement program trends from plans with services provided by The Principal and third-party research.

*The Total View 2009* is the only report of its kind that covers all of the core total retirement solutions plan designs: defined contribution, including 401(k) and 403(b), defined benefit, employee stock ownership plans (ESOP) and nonqualified retirement plans.

Because this report is based on 2007 and 2008 year-end data, it reflects savings behavior that occurred during these most unusual times. But that's not the only reason *The Total View 2009* is more valuable than ever. A new analysis section provides additional insight into retirement trends and what they may mean for retirement plan participants, plan sponsors and the retirement industry.

In addition, to make this report as up-to-date as possible, we have included some data from early 2009. This research shows that participants and plan sponsors may be starting to react more to the market. Now, more than ever, plan sponsors should work with their financial professional to help ensure their plan still meets their needs.

This valuable resource is available only from The Principal. With more than 65 years of experience in providing retirement plan services, we are pleased to share our knowledge with you. I, along with your financial professional, invite you to read further and use *The Total View 2009* to help benchmark your retirement plans or simply to gain new information about retirement savings trends.



Larry Zimpleman  
Chairman, President and Chief Executive Officer  
The Principal Financial Group

\*The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers – 2008 Spectrem Group analysis of fully bundled 401(k) providers (companies that provide both administrative and investment services). #1 provider of bundled 401(k) plans – The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers – 2008 Spectrem Group analysis of fully bundled 401(k) providers (companies that provide both administrative and investment services). Top recordkeeper of DB plans, Investment Advisor Magazine, November 2008. #1 recordkeeper of ESOP plans, based on the number of plans, PLANSPONSOR Recordkeeping Survey, June 2008. The Principal is a leader in the ERISA and employer-sponsored non-profit market. In a survey among 27 companies that offer not-for-profit retirement plans, The Principal ranked eighth in assets. LIMRA International, Not-for-Profit Market Survey, Fourth Quarter 2008 results.

# Executive Summary

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*As a leading provider of total retirement solutions\*, the Principal Financial Group is pleased to present The Total View 2009 — one of the most comprehensive reports on retirement plans. The Total View 2009 presents a unique perspective on the changing trends in the retirement plan services industry and their potential effects on retirement plan participants and plan sponsors.*

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*The Total View 2009* includes an annual review, report card and forecast to compare retirement plans with industry benchmarks, and a new analysis section that provides additional insight into the potential meaning of the trends contained in the report.

This version of *The Total View* is particularly valuable because it reports on retirement savings behavior during a time of unprecedented market volatility.

## **Key findings in *The Total View 2009* include:**

- Despite the unusual times, **retirement plan participants and plan sponsors largely stayed the course in 2008**, showing remarkable restraint and focusing on their long-term goals.
- Plan sponsors are seeking retirement plan solutions that go **back to the basics** and bring a robust set of highly valued services at a reasonable price.

While most of the information is based on year-end 2007 and 2008 data, we have also included some even more recent findings. This data, from early 2009, reinforces the ever-changing nature of the retirement plan industry by indicating participants and plan sponsors are starting to react more to the 2008 market volatility.

*The Total View 2009* includes benchmarks for an in-depth look at retirement program trends among almost 44,000 retirement plans in 2007 and more than 43,000 plans in 2008 with services provided by The Principal to approximately 4.5 million (2007) and 4.7 million participants (2008) across four core retirement plan designs: defined contribution, including 401(k) and 403(b), defined benefit, nonqualified and employee stock ownership plans (ESOP), in addition to third-party research.

\*The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers – 2008 Spectrem Group analysis of fully bundled 401(k) providers (companies that provide both administrative and investment services). #1 provider of bundled 401(k) plans – The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers – 2008 Spectrem Group analysis of fully bundled 401(k) providers (companies that provide both administrative and investment services). Top recordkeeper of DB plans, Investment Advisor Magazine, November 2008. #1 recordkeeper of ESOP plans, based on the number of plans, PLANSPONSOR Recordkeeping Survey, June 2008. The Principal is a leader in the ERISA and employer-sponsored non-profit market. In a survey among 27 companies that offer not-for-profit retirement plans, The Principal ranked eighth in assets. LIMRA International, Not-for-Profit Market Survey, Fourth Quarter 2008 results.



# *The Total View 2009 Analysis*

*The Total View is one of the most comprehensive reports in the industry on retirement plans. In a continuing effort to make The Total View more valuable to you, we are offering additional insight in this year's report.*

Retirement professionals from The Principal explain what some of this year's most important trends could mean for retirement plan participants, plan sponsors and the industry in general.

## **LEARN MORE ABOUT WHY:**

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Behavior remained steady in the face of declining markets

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Working longer than planned is not an option for many hoping to rebuild their retirement savings

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Automated solutions affect participant behavior

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Baby Boomer retirement confidence is at an all-time low

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Turnkey asset allocation solutions are in demand

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More organizations are considering bundling services

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Many defined benefit plans are underfunded

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Regulatory changes are affecting plan sponsors

We hope you find the following analysis helpful in bringing greater meaning to the trends of this most unusual year for the retirement industry.

# Retirement Plan Participant Trends

## Account Balances Decline But Savings Behavior Holds Steady

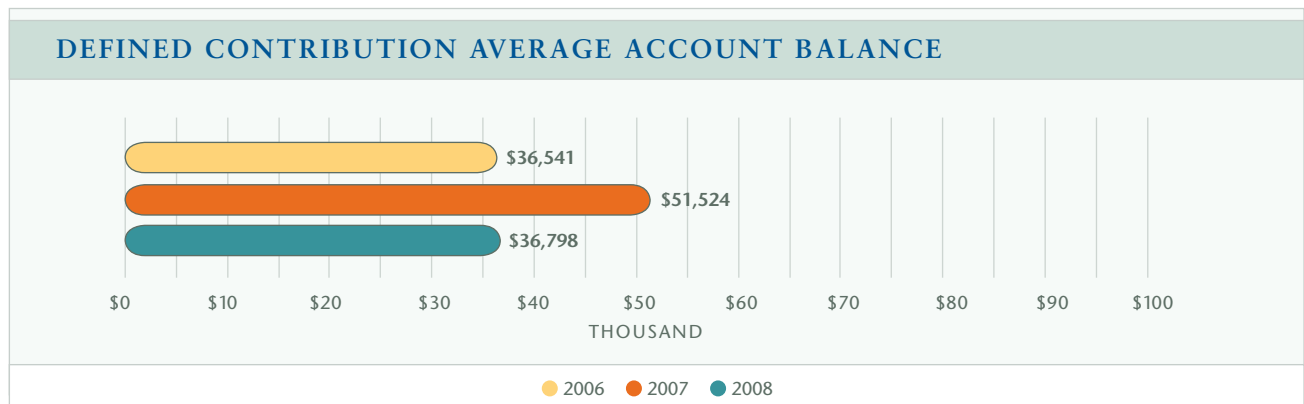
After peaking in 2007, the average retirement account balance declined by 28.5% in 2008 to an average of \$36,798, eroding most of the earnings from 2007. Yet, based on the data and analysis from the Employee Benefit Research Institute (EBRI), the time it may take to rebuild account balances could be much shorter than participants think. The age of the participants, how much they had invested prior to the market decline, how much they allocate the retirement funds in their employer's retirement plans going forward, and possible investment returns will dictate the length of time needed to rebuild account balances to pre-2008 levels.<sup>1</sup>

Even with large losses in retirement account balances, participants remain focused on their long-term strategies.

*The Principal Financial Well-Being Index<sup>SM</sup>*, 1st Quarter 2009, reports:

- 73% have maintained their asset allocation
- 5% or less have taken these actions: getting a loan from the 401(k) account, decreasing the amount they are contributing, making a hardship withdrawal or stopping contributions

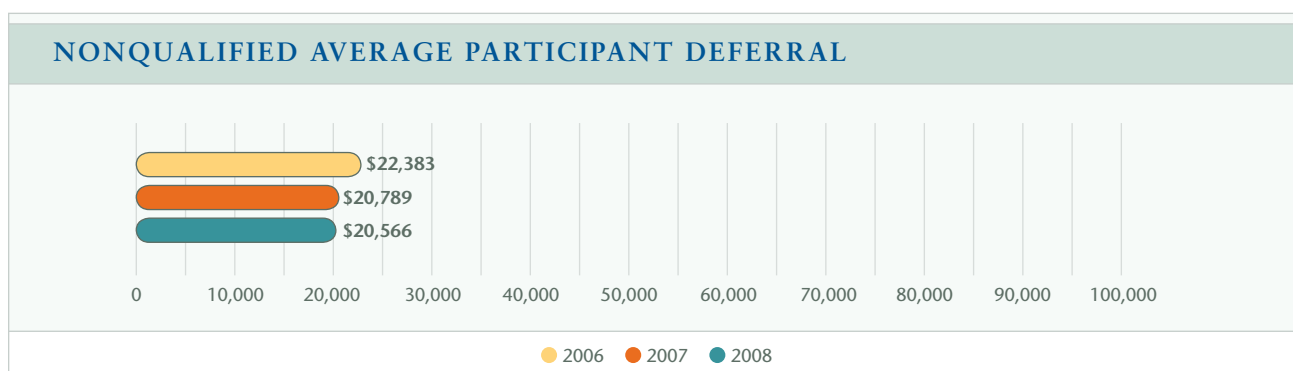
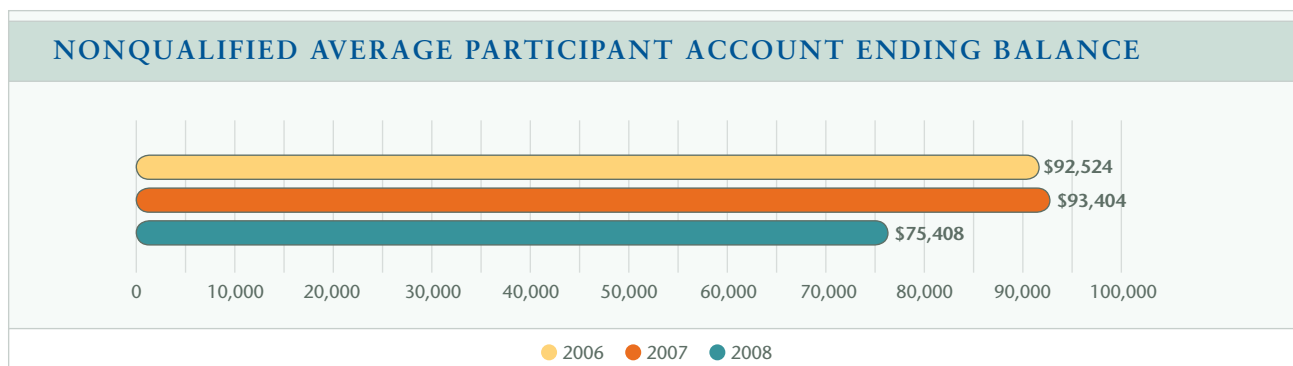
Among plans with services provided by The Principal, 19.2% of participants have actually increased their contributions, which is more than the combined total of those who stopped contributing or decreased their contributions (16.5%).



According to the EBRI/Investment Company Institute 401(k) database<sup>1</sup>, as of year-end 2007, 68% of participants had retirement savings of less than \$50,000. Many of those with less than \$10,000 actually saw account balances rise during 2008 despite the market losses, because they kept contributing and received employer contributions during the year. These combined contributions helped offset the impact of the investment losses. Of the participants with these lower balances, 52% were in their 20s or 30s. The real impact of the market selloff on the longer-term retirement plan savings appears to be rather negligible, though the emotional impact could be damaging in the long run if these participants give in to a fear of investing in equities.

<sup>1</sup>Based on actual asset allocation of 21 million 401(k) participants. Includes both employee and employer contribution, yet rebuilding concepts also apply to 403(b) participants. The analysis produced is based on calculations provided by the Employee Benefit Research Institute (EBRI). Data in the EBRI/ICI 401(k) database is confined to the participants' 401(k) plans with their current employers and does not include information on 401(k) plans with former employers or other 401(k) or retirement account balances.

We are seeing the same account balance trends in **nonqualified retirement plans** with services provided by The Principal. Account balances decreased 18.5% in 2008 to an average of \$75,408 and participant deferrals are remaining steady, only decreasing 1.1% since 2007.



A similar trend was seen among **employee stock ownership plans (ESOP)** with services provided by The Principal. The benefit level received by ESOP participants went down from 19.4% in 2007 to 15.7% in 2008. However, the average stock value changed from 2007 to 2008 for privately held ESOP clients, increasing 0.8%.

### Retirement Planning: Is Working Longer a Viable Option?

With average account balances declining sharply, the natural instinct for participants would seem to be to work longer to rebuild the retirement account balances. However, this is not an option for all workers.

- **47% of retirees retired earlier than planned**, most commonly due to reasons beyond their control (health or downsizing).<sup>2</sup>
- **Only 7% retired later** than they had planned.<sup>2</sup>

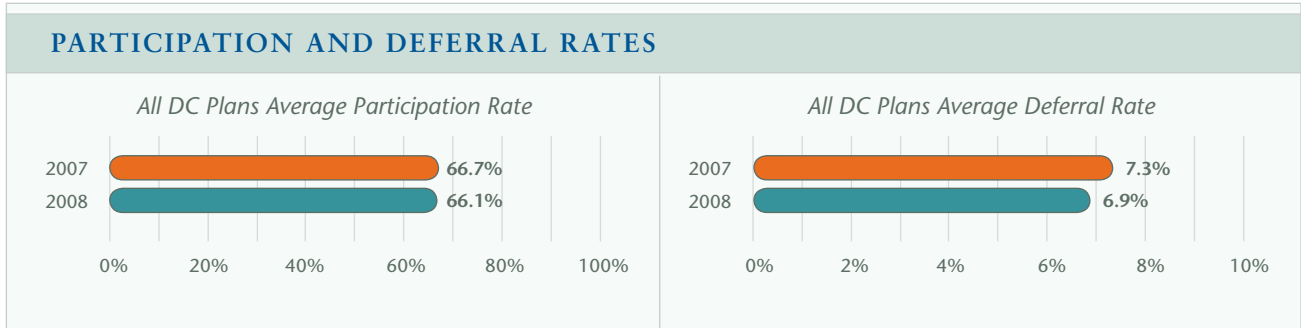
Among current workers, many say they are planning to supplement their income in retirement by working for pay. **72% plan to work after they retire**, compared to 66% in 2007. Just 34% of current retirees report they actually worked for pay at some time during their retirement.<sup>2</sup>

According to *The Principal Financial Well-Being Index*, **approximately one quarter of pre-retirees (age 55+) have delayed their planned retirement date** due to the economic conditions.<sup>3</sup>

This gap between the intentions of workers and the reality of retirees demonstrates the importance of workers planning for retirement throughout their working years. However, workers do realize the importance of the retirement savings plans offered by their employers as a major source of retirement income. **Twice as many current workers as retirees indicate employer-sponsored retirement plans will be a major source of their retirement income.**<sup>2</sup>

## Participation and Deferral Rates Remain Surprisingly Steady

The volatile economy has only had a small impact on participation and deferral rates, with both essentially remaining steady throughout 2008.



Participation rates clearly rise when age and income rise, with the exception of those past retirement age.

**AVERAGE PARTICIPATION RATE By Compensation Range**

|                     | 2007  | 2008  |
|---------------------|-------|-------|
| \$10,000 – \$15,000 | 40.3% | 40.4% |
| \$15,000 – \$30,000 | 32.9% | 56.7% |
| \$30,000 – \$50,000 | 72.2% | 46.5% |
| \$50,000 – \$75,000 | 88.6% | 87.8% |
| \$75,000 +          | 85.3% | 84.6% |

**AVERAGE PARTICIPATION RATE By Age Group**

|         | 2007  | 2008  |
|---------|-------|-------|
| 0 – 34  | 58.8% | 58.7% |
| 35 – 49 | 69.0% | 68.4% |
| 49 – 65 | 71.7% | 71.4% |
| 65+     | 55.5% | 56.4% |

In a recent study published by the Investment Company Institute<sup>4</sup>, it is clear that **priorities for younger individuals** include:

- An emergency fund
- Saving for a house

Lower-income individuals are more concerned about health care costs.

Among participants of retirement plans with services provided by The Principal, the lower participation rate of younger and lower-income people shows that these barriers to long-term savings exist for them as well.



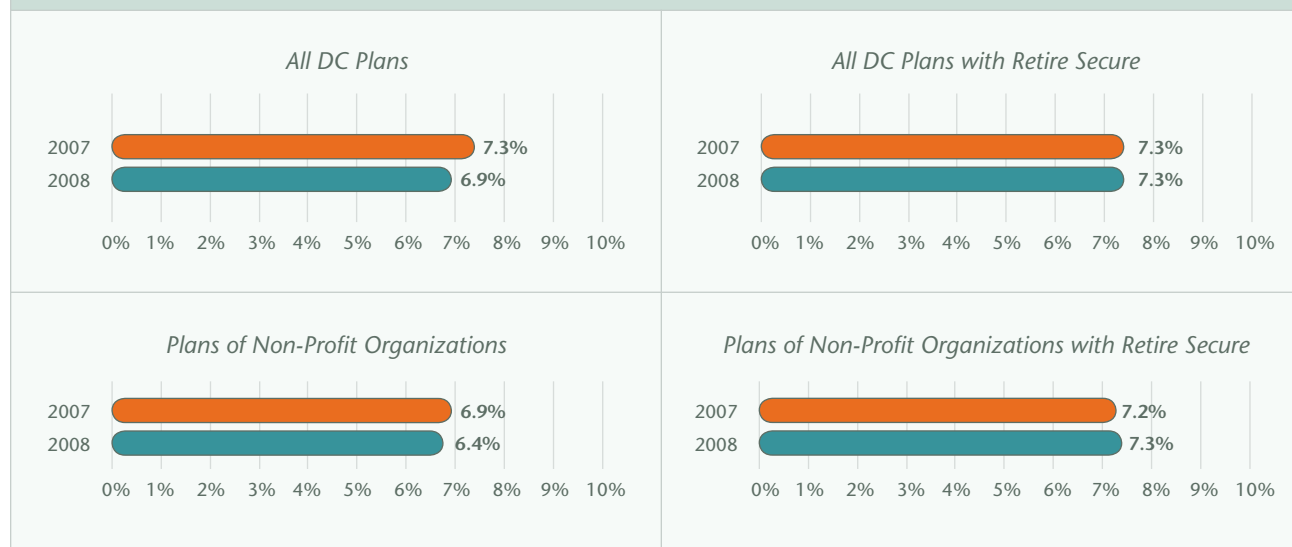
Among non-profit organizations that sponsor retirement plans with services provided by The Principal, the participation rate held relatively consistent from 2007 (64.6%) to 2008 (64.9%), which is comparable to the overall participation rate which includes for-profit and non-profit organizations at 66.1%.

### NON-PROFIT AVERAGE PARTICIPATION RATE

|   | 2007  | 2008  |
|---|-------|-------|
| Plans of Non-Profit Organizations (without Principal Retire Secure <sup>SM</sup> (Retire Secure)) | 64.6% | 64.9% |

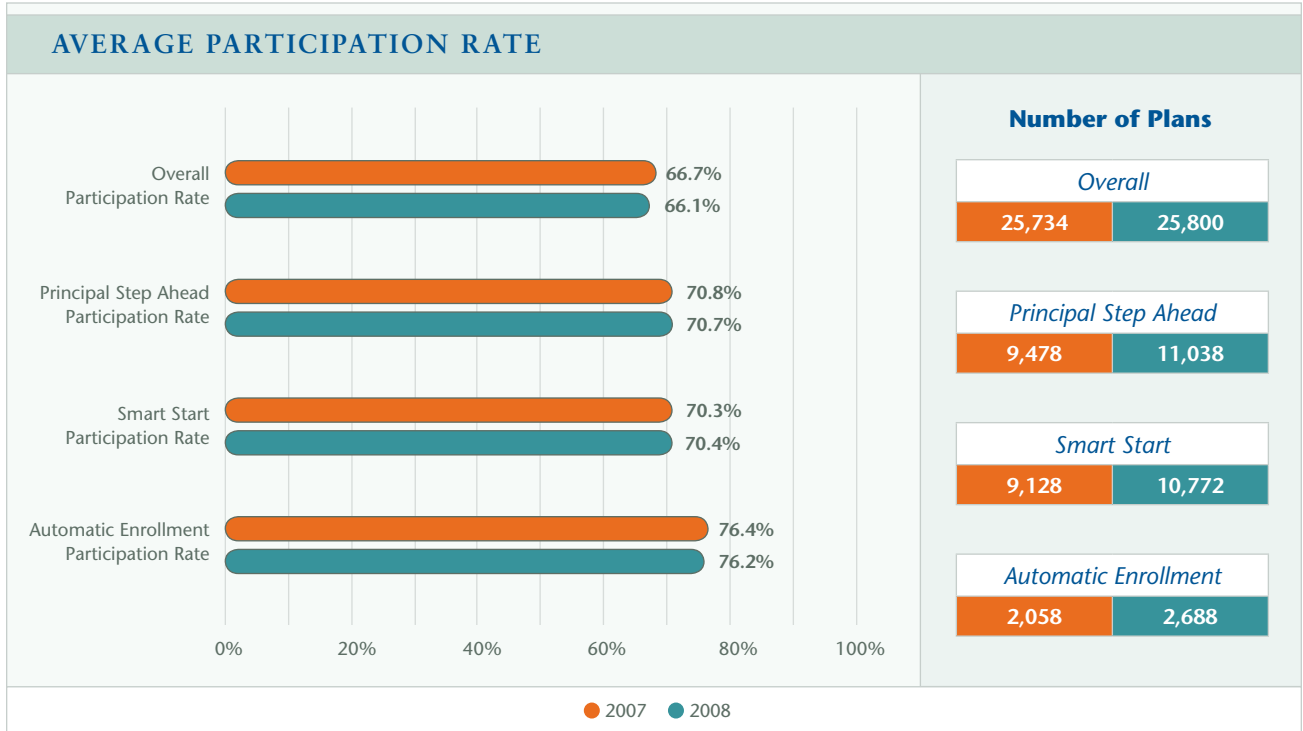
In 2008, non-profit plan participants decreased their overall level of deferral rate at a level that is consistent with those that are part of a corporate defined contribution (DC) plan. Although when the education model of Retire Secure, our program which offers one-on-one guidance at the worksite, was used, non-profit participants maintained and slightly increased their overall level of contribution.

### AVERAGE DEFERRAL RATE

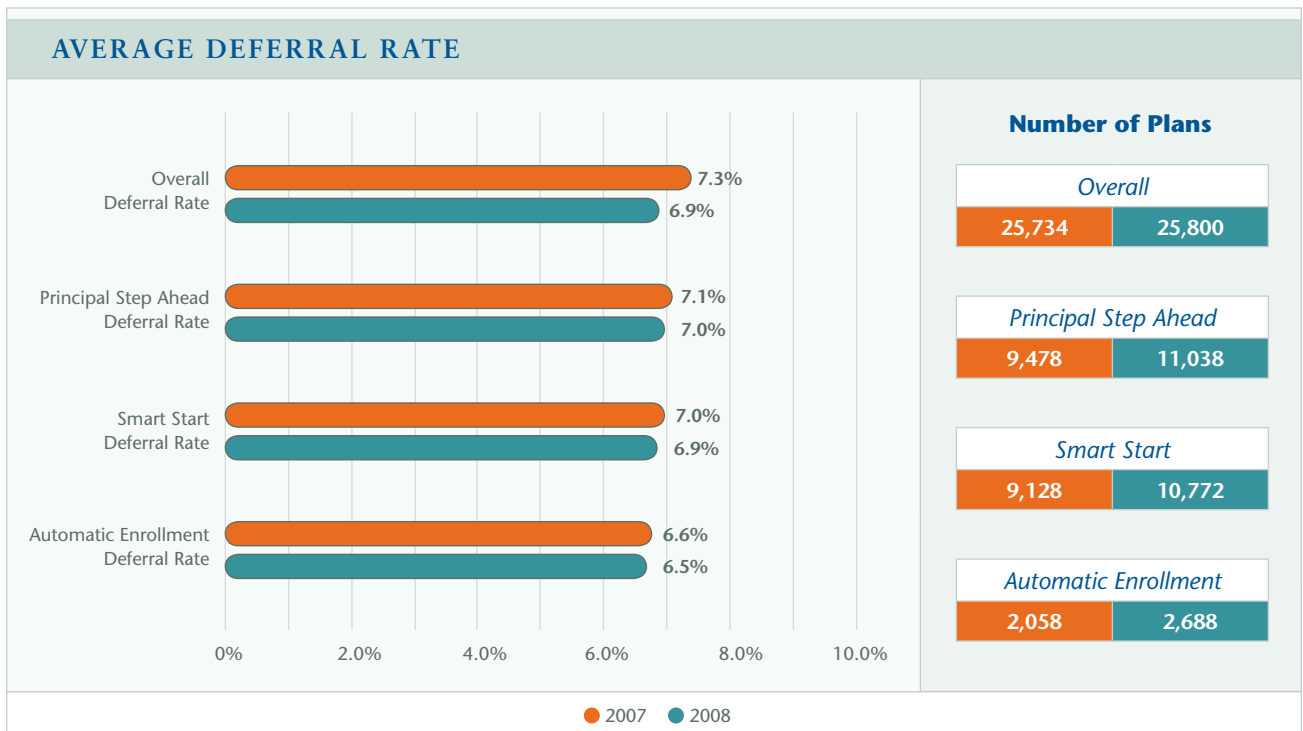


## Automated Solutions Have a Positive Impact on Participation

Our automatic features (Principal Step Ahead Retirement Option<sup>SM</sup> (Principal Step Ahead), Smart Start and Automatic Enrollment) continue to show a positive impact on participant behavior.



While automatic features help maintain high participation rates, deferral rates did decrease, most likely due to the economy.



## Participants Avoided Knee-Jerk Behavior

Even before the market declines in September of 2008, participants were beginning to see their dollar stretched further as gas prices soared, inflation increased and food prices surged about 6% in 2008.<sup>5</sup> Participants had less disposable income to put toward their retirement savings.

And then the market dropped. **Yet, participants acted more prudently than expected in 2008.**

We saw **call center volume at record highs in the fall of 2008** as participants wanted answers and assistance about reacting to the market situation. Participants have become much more engaged.

The main topics of calls during the economic crisis were:

- Distribution information (withdrawals, loans, hardships)
- Investment options and asset allocation
- Stability of the money with organizations that are failing

The 1st Quarter 2009 study by *The Principal Financial Well-Being Index* and the *EBRI/Greenwald 2009 Retirement Confidence Study* also showed that **individuals were staying the course.**

Although 7.7% of participants stopped contributing to their retirement savings and 8.8% decreased the amount, 19.2% actually increased their contributions. So while the market may have caused some people to decrease or stop their contributions, **more participants remained focused on their long-term retirement savings goals.**

### CHANGES IN PARTICIPANT BEHAVIOR

*# and % of participants that increased/decreased deferrals*

|                   | 2007    | 2008    |
|-------------------|---------|---------|
| # increased       | 139,883 | 158,822 |
| % of participants | 19.9%   | 19.2%   |
| # decreased       | 40,752  | 73,154  |
| % of participants | 5.8%    | 8.8%    |
| # stopped         | 33,139  | 63,893  |
| % of participants | 4.7%    | 7.7%    |

*Data is specific to Salary Deferral Service clients. 2007 number of participants — 702,255; 2008 number of participants — 829,156*

In addition, we actually saw the percentage of participants taking plan loans decrease slightly.

### PARTICIPANT LOANS

|                                  | 2007    | 2008    |
|----------------------------------|---------|---------|
| <i>Participants taking loans</i> |         |         |
| # of participants taking loans   | 149,666 | 148,946 |
| % of participants taking loans   | 6.4%    | 6.0%    |

<sup>5</sup>Money magazine, December 2008. "Your Spending," pg. 96

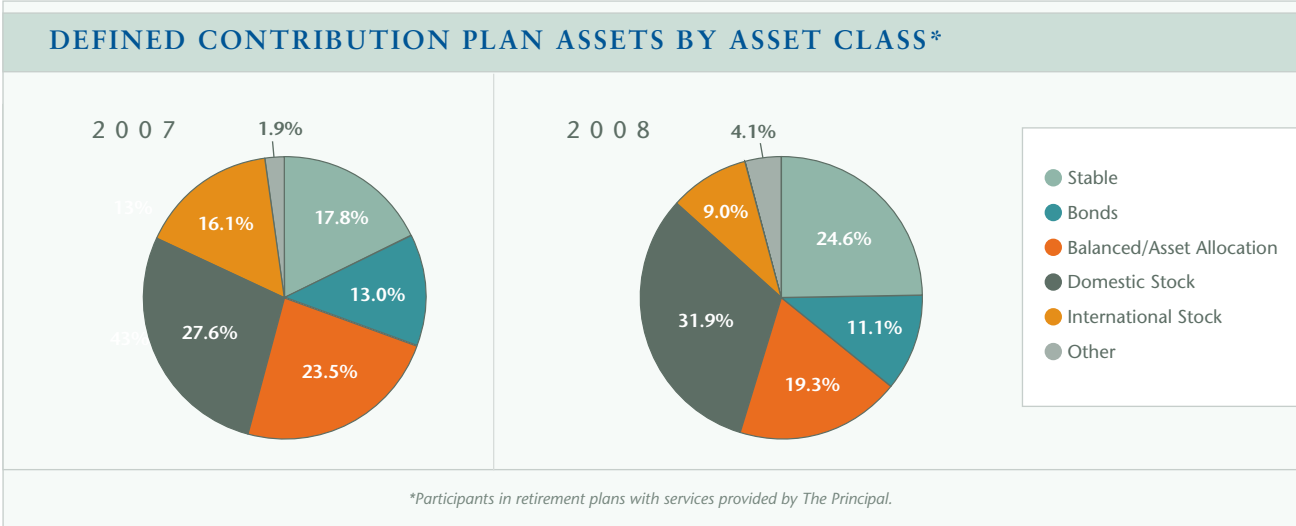
While participants acted more prudently than expected in 2008, the market impact was felt. The average personalized rate of return among participants in DC plans recordkept by The Principal experienced a dramatic decline from 2007 to 2008 — a shift of more than 30 percentage points, compared to the Standard & Poor’s (S&P) 500 Index decline of more than 40 percentage points.

| PERSONALIZED RATE OF RETURN   |      |        |
|-------------------------------|------|--------|
|                               | 2007 | 2008   |
| Personalized Rate of Return*  | 6.6% | -23.9% |
| Standard & Poor’s 500 Index** | 5.5% | -37.0% |

\*Average personalized rate of return reflects the one year return of participants whose employer’s retirement plan is recordkept by The Principal and whose plan year ends on December 31, 2008. While not all plans end on December 31 of each year, this figure represented 25,512 plans as of December 31, 2007, and 25,745 plans as of December 31, 2008, recordkept by The Principal. Past performance is not a guarantee of future results.

\*\*Standard & Poor’s 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

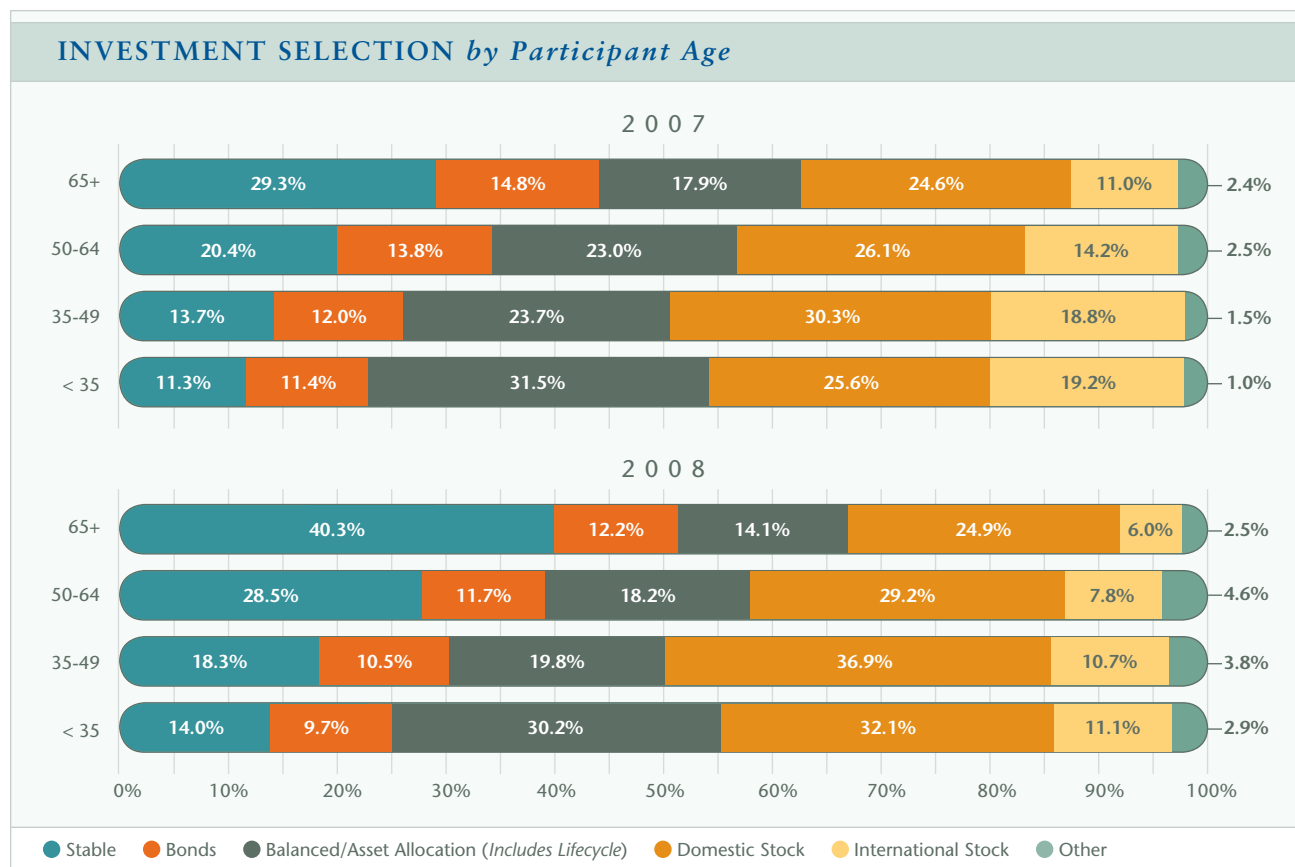
Given the historic context of 2008, it would be reasonable to assume that we might see a dramatic shift in plan assets by asset class. However, **actual shifts in plan assets of participants in retirement plans with services provided by The Principal were more tempered, reflecting a more rational and prudent approach.**



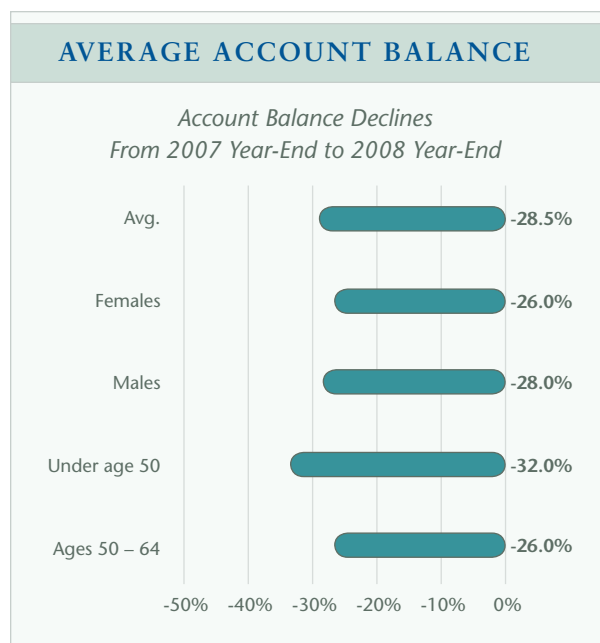
Although there were asset class shifts to more conservative investment types, the shift was not substantial. **We have not seen wholesale transfers out of the equity markets into stable investment options.** In fact, the higher percentages of stable assets are more a function of equity market performance declines.

As expected, **there was a more significant increase in plan assets held in the stable category among those participants closer to retirement.** The chart on the following page shows that in 2008 there was an 8.1 percentage point increase for people ages 50-64 and an 11.0 percentage point increase for ages 65+ in this category. However, it is notable that those same participants held steady with their exposure to domestic stock investment options. For participants ages 50-65 there was only a 3.1 percentage point increase; and an increase of only 0.3 percentage points for participants ages 65+ in this category in 2008.

Considering that conditions were unlike any that retirement plan participants had previously experienced, **actions were generally rational and prudent.** While participants showed more concern for their retirement savings, there were not significant changes in attitudes toward savings, taking loans and hardship withdrawals and asset allocation.



### Baby Boomers: Confidence at an All-Time Low



Baby Boomers face a number of obstacles in their ability to retire comfortably, including:

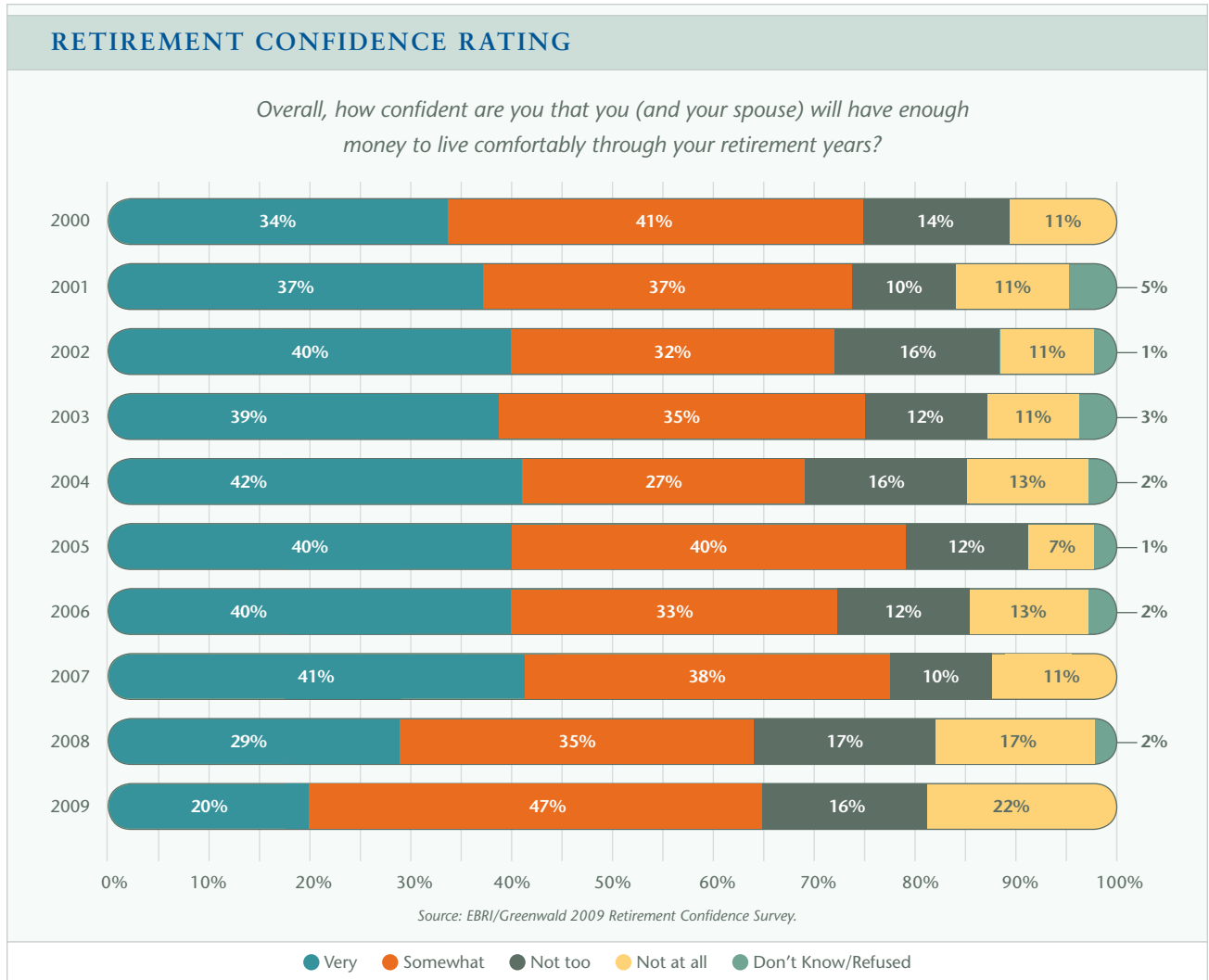
- A late start to saving
- A need to catch up after a slow start
- Taking too much risk
- Overexposure to market volatility
- Retiring earlier than planned

Even before the market collapse in September of 2008, **this age group was already behind in retirement planning.** There is a large discrepancy between those that think they are prepared and those who are adequately prepared for retirement.

As a result of being underprepared, **pre-retirees may have tried to overcompensate by investing more in stocks** to take advantage of the growth potential, leaving them too aggressively weighted in this category as we entered the market crisis.

According to EBRI, a year before the bear market started, nearly 40% of 401(k) participants in their mid-fifties to mid-sixties had 80% or more of the account invested in stocks. Typically for anyone on the verge of retirement or a few years into retirement, something in the neighborhood of 55% stocks and 45% bonds is more appropriate.<sup>6</sup> Those experiencing the most damage from the falling market values were the participants with the largest balances. Of these, 53% with account balances greater than \$100,000 were in their 50s and 60s.<sup>7</sup>

Now the confidence to retire securely is at an all-time low according to the *EBRI/Greenwald 2009 Retirement Confidence Study*.



Many people consider working longer as a solution for saving more. However, for many reasons, **many people are not able to delay their retirement date.**

**Another option to make up for their loss is to curb spending in retirement.** While workers may be adjusting their discretionary spending, they must keep in mind the rising costs of health care as many workers are finding themselves paying more for health care than expected.

**Continued education and communication on a recovery strategy is crucial for this group to get back on track.**

Participants should not get discouraged but rather need to focus on what they can control — their contributions and asset allocation — to help with a faster recovery. Now, more than ever, **participants should work with a financial professional** to develop a personalized recovery plan to get back on track.



### Increasing Demand for Turnkey Solutions for Participant Asset Allocation

Studies show that **asset allocation decisions comprise more than 90% of the variability of a portfolio's investment performance** over time.<sup>8</sup> Over the past few years retirement plan sponsors and financial professionals have been consistently requesting simplified, turnkey solutions for assisting participants with selecting investments. Plan sponsors have also been encouraged to offer these solutions as a result of the Pension Protection Act (PPA) of 2006, which created a framework for offering a Qualified Default Investment Alternative (QDIA).

As a result, **there has been a significant increase in interest among plan sponsors in Lifecycle investment solutions in the past few years**, which include target date and target risk investment options.

As of December 31, 2008, more than \$300 billion in assets were held in these popular investment vehicles. While this is down from the end of 2007, **the decline in assets was primarily due to the pullback in the markets in 2008.**<sup>9</sup>

In fact, EBRI notes in its report<sup>10</sup>: "Had all 401(k) participants been in the average target date investment option at the end of 2007, 40 percent of the participants would have had at least a 20 percent decrease in their equity concentrations, and consequently, may have mitigated their losses, sometimes to an appreciable extent."

In each of the longer time periods displayed in the table below, the **diversified target date and target risk portfolios have outperformed the S&P 500 Index.**

#### COMPARISON OF LIFECYCLE *vs.* S&P 500 Index Returns

| Benchmark Performance | 1 Year Return | 3 Year Return | 5 Year Return |
|-----------------------|---------------|---------------|---------------|
| Target Date Fund      | -30.4%        | -2.5%         | 3.2%          |
| Target Risk Fund      | -27.7%        | -2.5%         | 3.1%          |
| S&P 500 Index         | -37.0%        | -8.4%         | -2.2%         |

<sup>8</sup>Financial Analysts Journal, May/June 1991; study results confirmed, April 1999

<sup>9</sup>Financial Research Corporation (FRC) Lifecycle Funds Report from Fourth quarter 2007/2008

<sup>10</sup>Based on actual asset allocation of 21 million 401(k) participants. Includes both employee and employer contribution, yet rebuilding concepts also apply to 403(b) participants. The analysis produced is based on calculations provided by the EBRI. Data in the EBRI/ICI 401(k) database is confined to the participants' 401(k) plans with their current employers and does not include information on 401(k) plans with former employers or other 401(k) or retirement account balances.

The tables immediately below showcase the use of Lifecycle investment options among plans recordkept by The Principal:

| <b>TOTAL ASSETS, PLANS AND PARTICIPANTS <i>Using Lifecycle* Investment Options</i></b> |             |             |
|--|-------------|-------------|
|  | <b>2007</b> | <b>2008</b> |
| Total Assets (in millions)   | \$13,343    | \$10,639    |
| Total Plans  | 23,178      | 24,636      |
| Total Participants   | 916,403     | 1,114,032   |

\*Reflects both target date and target risk options.

| <b>INVESTMENT DEFAULT: <i>Lifecycle Investment Options vs. Other Investment Types</i></b> |                          |
|---|--------------------------|
| As of December 31, 2008   |                          |
| <i>Investment Type</i>  | <i>% Used as Default</i> |
| Lifecycle – Target Date   | 73%                      |
| Money Market  | 9%                       |
| Stable Value  | 8%                       |
| Lifecycle – Target Risk   | 5%                       |
| Guaranteed Options  | 4%                       |
| Other   | 1%                       |

| <b>PARTICIPANT ADOPTION OF LIFECYCLE INVESTMENT OPTIONS</b> |             |             |
|---|-------------|-------------|
| <i>by Age</i>   |             |             |
| <b>Age Bands</b>  | <b>2007</b> | <b>2008</b> |
| Under 35  | 29.5%       | 30.6%       |
| 35-49   | 41.2%       | 40.3%       |
| 50-64   | 27.0%       | 26.8%       |
| 65+   | 2.3%        | 2.3%        |

| <i>by Average Account Balance</i> |             |             |
|-----------------------------------|-------------|-------------|
| <b>Range</b>                      | <b>2007</b> | <b>2008</b> |
| Under \$25,000                    | 86.5%       | 91.3%       |
| \$25,000 to \$49,999              | 7.0%        | 5.1%        |
| \$50,000 to \$74,999              | 2.7%        | 1.7%        |
| \$75,000 to \$99,999              | 1.3%        | 0.8%        |
| \$100,000 to \$199,999            | 1.8%        | 0.9%        |
| Over \$200,000                    | 0.7%        | 0.3%        |

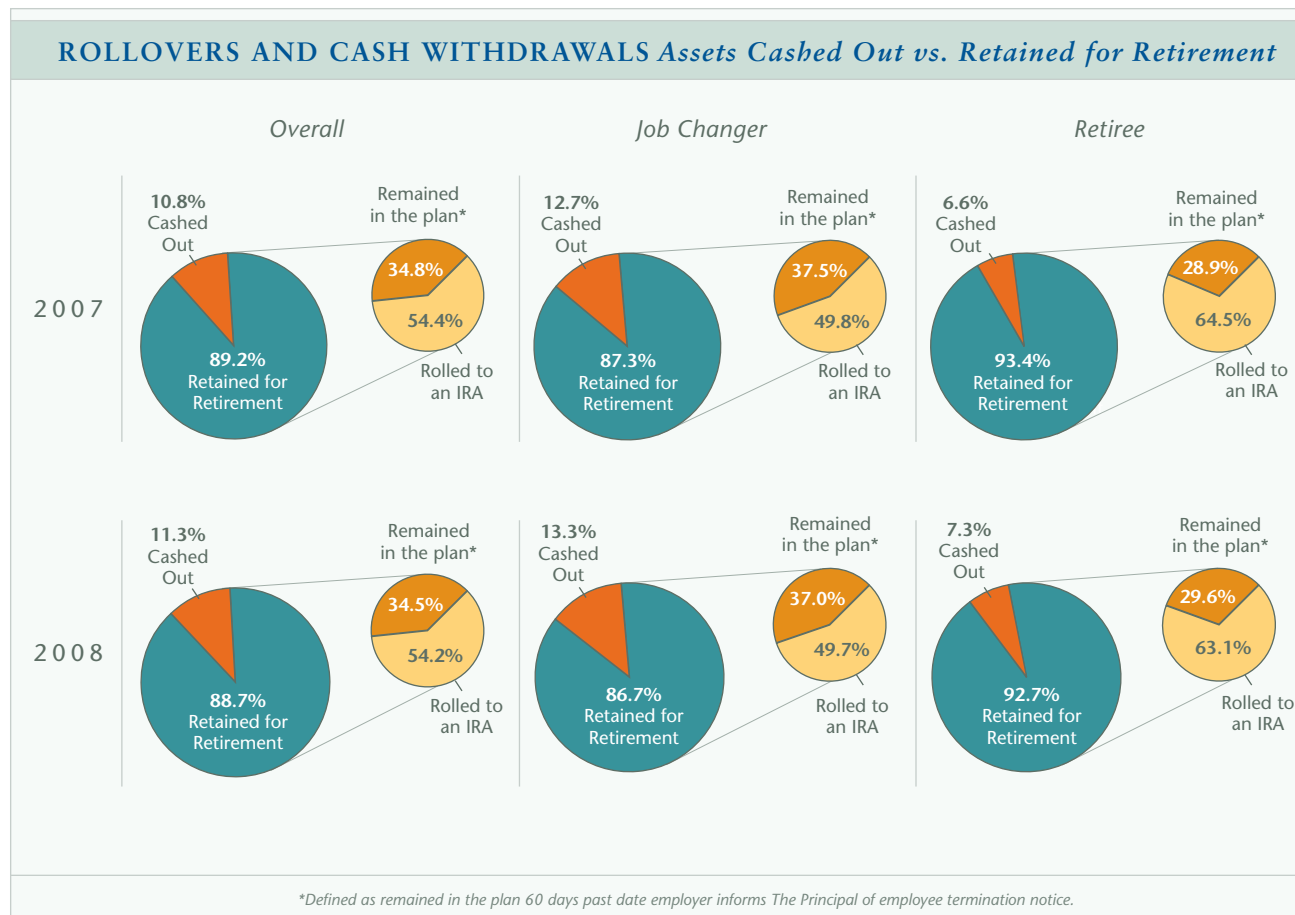
*Past performance is not a guarantee of future results. Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.*

While the decline in assets in Lifecycle investment options among plans with services provided by The Principal is consistent with the industry trend, the demand for simplified, turnkey asset allocation solutions is reflected in the increased adoption rates of these investment options. From 2007 to 2008 alone, **the number of plans offering a Lifecycle investment option increased by more than 6%**. Most notably, the adoption of Lifecycle investment options as the default investment option of choice reflects the favorable treatment of these investment options by the PPA.

In reviewing participant adoption of Lifecycle investment options, we continue to find **the most significant adoption is among those participants who have a longer retirement time horizon and lower average account balances**, particularly those with less than a \$25,000 account balance.

### Rollover or Cash Out?

Participants continue to be prudent when it comes to preserving assets for retirement even after leaving a job. In 2008, nearly 90% of assets that became available for distribution remained invested for retirement versus being cashed out. This trend is consistent with prior years.



# Retirement Plan Sponsor Trends

## Personalization: A Key to Retirement Planning

The market downturn, coupled with changing guidelines regarding pension plan disclosures, has made communication efforts more important than ever. As a result, **personalization is key**.

We found that our program with the most personalization, **Retire Secure**, is most effective at increasing participation and deferral rates.

| RETIRE SECURE                        |       |                                      |      |
|--------------------------------------|-------|--------------------------------------|------|
| Retire Secure Participation Rate     | 75.5% | Retire Secure Avg. Deferral Rate     | 7.3% |
| Non-Retire Secure Participation Rate | 66.1% | Non-Retire Secure Avg. Deferral Rate | 6.9% |

Our **My Principal® Edge** program for participants also focuses on personalization and relevant education to help them develop an action-oriented savings plan. At the heart of this program is the My Principal® Edge Milestones, a personalization tool where we've seen:

- **47% response rate** for those participants who go through the tool and click to take action<sup>11</sup>
- **83% of respondents would recommend the Milestones tool** to a friend or co-worker<sup>12</sup>
- **93% of respondents feel the tool is easy to use**<sup>12</sup>

When we reinforce our personalized call to action items on annual participant statements **39% of participants took an action**.<sup>13</sup>

## Automated Solutions Help Do-It-For-Me Investors

We have seen a number of participants that are seeking automated solutions for enrollment, salary deferral and asset allocation assistance.

In fact, **76% of participants consider themselves “do-it-for-me” investors**.<sup>11</sup>

For help with salary deferral contributions, products like **Principal Step Ahead** allow employees to choose the salary deferral rate set by their employer and automatically increases participant contributions annually. In the case of Principal Step Ahead, **98.8% of participants choose to remain in the feature** after the initial election.<sup>14</sup>

<sup>11</sup>2008 4th Quarter Retirement & Investor Services Marketing Balanced Score Card

<sup>12</sup>My Principal® Edge Milestones Web survey, May 2008

<sup>13</sup>Based on 17,127 participants receiving a specific message and 6,683 participants taking the action suggested within the message The Principal, 2007

<sup>14</sup>Principal Individual Investor Life Stage Segmentation Review, November 2008

## More Plan Sponsors Consider Bundling Services

### DB PLAN SERVICES

Statistics provided by Chatham Partners

|               | 2008 | 2005 | 2003 |
|---------------|------|------|------|
| Unbundled     | 57%  | 73%  | 76%  |
| Semi-bundled  | 28%  | 10%  | 5%   |
| Fully bundled | 7%   | 9%   | 8%   |
| TRO           | 7%   | 6%   | 11%  |
| TBO           | 1%   | 2%   | 0%   |

Many plan sponsors are looking to save money by considering one provider for all their retirement plan services.

Over the past several years, plan sponsors have moved away from traditional defined benefit (DB) designs to focus on DC plan or hybrid designs due to competition for labor and global competition.

As DB plan designs have simplified there has been a trend for DB plan sponsors to seek cost reductions, administrative efficiencies and enhance employee communication technologies offered by bundling services with one provider.

The highest percentage of bundled clients is those with under \$50 million in assets with between 500 – 1,000 employees. Larger, more complex plans are less likely to bundle services.

A slightly increased percentage of respondents were willing to alter investment consultant relationships and investment managers, and to bundle more services for a lower cost of administration. The primary reasons cited for bundling services are a single point of contact, the ability to integrate DB and DC plans, and improved participant services.

We see a similar trend among nonqualified plan sponsors<sup>15</sup>:

- 29% bundle recordkeeping and consulting services from their recordkeeper.
- Among nonqualified plans with an outside recordkeeper, 2 out of 3 plan sponsors package their nonqualified plan with their qualified plan recordkeeper.

Non-profit organizations with actively sponsored plans (as opposed to those with retail individual 403(b) plans) have realized the efficiencies of bundling all their plan services for a longer time than have for-profit companies. So we see a high percentage of total retirement solution sales among non-profit clients.

### TOTAL RETIREMENT SOLUTION SALES

*Non-Profit Total Retirement Solution Sales as a Percent of Total Non-Profit Sales*

|                 | 2007 | 2008 |
|-----------------|------|------|
| By client count | 59%  | 43%  |
| By plan assets  | 55%  | 77%  |

*Total Retirement Solution Sales as a Percent of Total Sales*

|                  | 2007 | 2008 |
|------------------|------|------|
| By client count* | 31%  | 32%  |
| By plan assets   | 61%  | 58%  |

*Total Retirement Solution Sales as a Percentage of Total Retirement Solution Quotes*

|                             | 2007 | 2008 |
|-----------------------------|------|------|
| By all industries           | 34%  | 35%  |
| By non-profit organizations | 22%  | 24%  |

\*Does not include micro-market case sales which are exclusively single product/service sales.



### **DC Plan Design Concerns: Match Formulas and Safe Harbor Plans**

In 2009, we have seen an increase in the number of organizations making changes to matching contributions. As of June 1, 2009, 4.9% of retirement plans with services provided by The Principal have made a change to their matching contribution formula since the beginning of 2009. This is compared to 4.7% for all of 2008.<sup>16</sup>

We believe this is a direct reflection of the economy taking a downturn and of plan sponsors not having the funds to put into the plan. Many plans are moving from a stated match to a discretionary match, while others are adding maximums to the amount they will match or decreasing the minimum amount matched for the year.

**A small number of safe harbor plans are removing their match** and the Internal Revenue Service (IRS) has recently proposed regulations to be able to stop a Qualified Non-Elective Contribution (QNEC) mid-year, but only if the employer incurred a substantial business hardship.

Removing provisions needed to be a safe harbor plan is a large tradeoff for plan sponsors as they are giving up the ability for their highly compensated employees to contribute up to the legal deferral limit without year-end refunds.

# Retirement Industry Trends

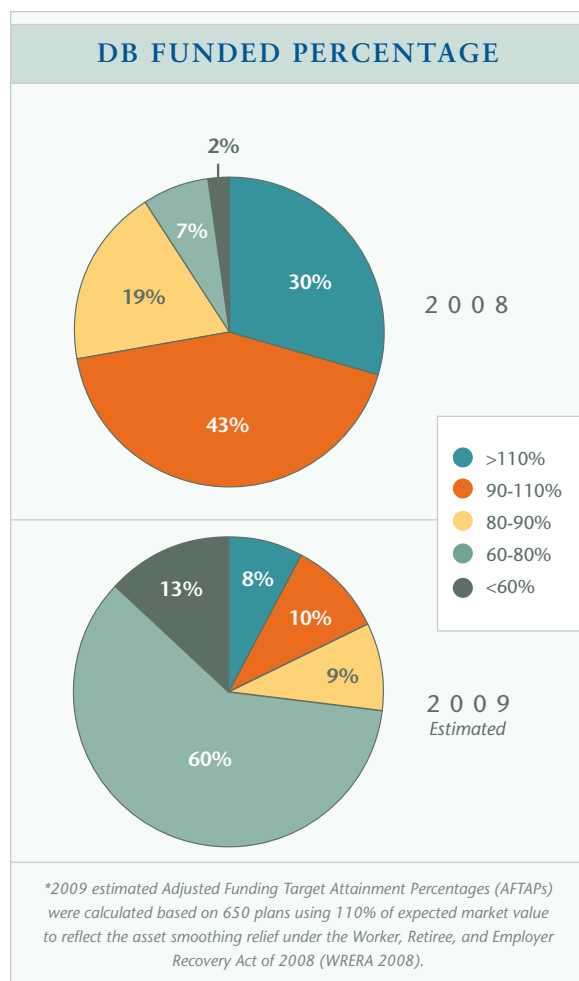
## Underfunding: A Trend Among DB Plans

Since the 1980s, the number of DB plans has been on a slow decline. The PPA and accounting changes, combined with the recent market decline, have made DB plans much more difficult to maintain. In many cases, contribution and pension expense requirements have double or tripled.

It is possible legislative relief may permit employers to fund the 2008 losses suffered by their DB plans over a longer period. Due to business necessity, many companies will look to reduce costs and minimize the impact of market volatility by reviewing plan design and investment policies.

While the initial reaction may be to reduce future benefit accruals, the decline in the market has also affected employees' 401(k) account balances and personal savings. Accordingly, DB plan sponsors need to reexamine their overall retirement plan philosophy and workforce management goals.

For most plans that have already been frozen, the sharp decline in funded percentage will make the cost to terminate the plan out of reach for the foreseeable future, barring a dramatic recovery in the financial markets. Many plan sponsors are examining investment and funding policies to develop a strategy to terminate the plan while minimizing the impact of market volatility on funding and accounting requirements.



The market decline in 2008 caused plans' funded percentages to decline sharply.

Based on contribution and funded percentage results of a limited cross-section<sup>17</sup> of DB plans with services provided by The Principal:

- Every plan experienced a decrease in the market value of assets, ranging from -7% to -38%.
- The average funding level dropped from 94% in 2008 to 68% in 2009.
- Every plan is expected to have an increase in the required contribution for 2009 with the smallest increase being 11% and the largest at 537%. One-third of the plans will increase more than 100%.

What are the implications of this underfunding? We anticipate:

- More plans will be subject to benefit restrictions.
- More plans will have to freeze accruals.
- Employer contributions for 2009 and beyond will increase significantly, provided there is no additional legislative relief.
- More plans will be subject to 4010 filings.
- More employers will achieve "at risk" status, creating additional funding and restrictions on companion nonqualified plans.

<sup>17</sup>The cross-section represents seventeen DB plans whose 2009 valuations were completed early enough to be included in the report.

## The Effect of the Worker, Retiree, and Employer Recovery Act of 2008

In December 2008, Congress passed the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA 2008). The intent of the legislation was to provide relief to some plans for which the 2009 contribution was expected to increase dramatically.

95 retirement plans with services provided by The Principal were affected, 45 of which were frozen.

- For the 95 total plans, the average percent decrease in annual cost was 30%, or \$90,000.
- For the 45 frozen plans, the average percent decrease in annual cost was 40%, or \$74,000.
- For the 50 non-frozen plans, the average percent decrease in annual cost was 21%, or \$104,000.

The largest decrease in annual cost was \$1,400,000, and the largest percent decrease in annual cost was 86%.

### Additional Education for DB Plan Sponsors

There is an increasing need for DB plan sponsors to receive additional education. The volatility in the financial markets, the fluid PPA pension funding regulations, as well as accounting disclosure requirements present plan sponsors with serious questions regarding the viability of their pension plans in their current forms.

DB plan sponsors are not only concerned about the immediate cost of their DB program, but also about the ultimate long-term cost of the program. The primary focus of revisiting plan design has been to reduce cost and volatility of contributions and expense.

| DB PLAN SPONSORS <i>Reaction to Market Volatility</i>  |             |                 |                   |               |
|--|-------------|-----------------|-------------------|---------------|
|  | Very Likely | Somewhat Likely | Somewhat Unlikely | Very Unlikely |
| <i>No changes, continue with current plan as is</i>  | 68%         | 14%             | 5%                | 14%           |
| <i>Change aspects of the plan design, but continue to offer a DB plan to current and future employees</i>                                      | 10%         | 8%              | 18%               | 64%           |
| <i>Change traditional DB plan to a hybrid plan (cash balance or pension equity)</i>  | 7%          | 7%              | 7%                | 79%           |
| <i>Close participation; no longer allow new employees to enter the DB plan</i>   | 3%          | 15%             | 20%               | 62%           |
| <i>Freeze accruals; cease benefit accruals for all or a portion of participants</i>  | 0%          | 5%              | 16%               | 79%           |
| <i>Terminate the plan; fully fund and remove all company liability through lump sum payout to participants or third-party annuity purchase</i> | 0%          | 0%              | 3%                | 97%           |
| <i>Change to other plan design</i>   | 0%          | 0%              | 8%                | 92%           |

Source: Hewitt - Hot Topics in Retirement, 2009

As can be seen from the above study, only 5% of plan sponsors are likely to consider freezing their DB plan. These results agree with the behavior of DB plans sponsors with retirement services provided by The Principal.

In 2008, only 3% of those DB plan sponsors with services provided by The Principal froze their plans.

### DB PLAN FREEZES

| Year of benefit freeze | Number of plans |
|------------------------|-----------------|
| Prior to 2004          | 158             |
| 2004                   | 17              |
| 2005                   | 22              |
| 2006                   | 50              |
| 2007                   | 46              |
| 2008                   | 45              |
| 2009 (through May)     | 14              |
| <b>Total</b>           | <b>384</b>      |

Our sense from consulting with DB plan sponsors is that they must be careful about cutting benefits at a time when employees have lost a significant portion of the value of the retirement funds in their employer's 401(k) plans.

Many plan sponsors are reexamining their asset allocation with asset liability modeling (ALM) studies, increasing the number of studies by more than 200% in 2009. While most plan sponsors have not begun to move assets to a Liability-Driven Investing (LDI) style mix, they are looking closely at a strategy that moves assets to a less volatile allocation as their funding levels improve.

A significant need among plan sponsors with frozen DB plans is to develop a strategy to reach termination funding, because of the significant impact of changes brought about as a result of the PPA.

### ESOP Companies Holding Steady

With the negative economic conditions of 2008 and so far in 2009, many ESOP companies are facing new issues such as:

- Partial terminations
- ESOP debt that cannot be repaid
- Share values too low to meet the requirements when dividends on allocated shares are used to repay ESOP loans
- The need to change distribution policies

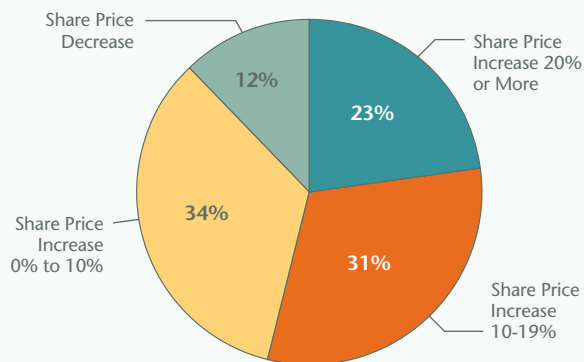
ESOP companies seem to be doing fairly well, at least compared to the economy in general, based on a National Center for Employee Ownership (NCEO) survey of consultants who provide services to approximately 1,350 ESOPs. These companies listed their current status as:

- Bankrupt or about to go bankrupt—1.0%
- Laying off or planning to lay off 20% or more of the work force—5.0%
- Breaking even—17.9%
- Profitable, but no plans for hiring new people—49.2%
- Profitable with plans for hiring new people—26.9%

### STRONG FIVE-YEAR STOCK GROWTH

ESOP Companies

*A NCEO survey on ESOP executive compensation shows that responding companies had impressive stock price growth between 2003 and 2008:*



Total Responding: 310

Source: nceo.org

## Nonqualified Deferred Compensation Plans Gain Participants

Our data indicates that nonqualified deferred compensation plans are **not just for the most senior officers and management of organizations**. All highly compensated employees have a need to make up for the retirement savings gap, caused by limitations in qualified plans and Social Security benefits.

| NONQUALIFIED DEFERRED COMPENSATION PLANS |                               |                                     |                       |                        |
|--|-------------------------------|-------------------------------------|-----------------------|------------------------|
|  |                               | Participant Account Ending Balances | Participant Deferrals | Employer Contributions |
| 2006                                     | <i>Average</i>                | \$92,524                            | \$22,383              | \$12,500               |
|  | <i>Mean</i>                   | \$28,508                            | \$9,397               | \$4,843                |
|  | <i>Number of Participants</i> | 8,443                               | 5,348                 | 4,201                  |
| 2007                                     | <i>Average</i>                | \$93,404                            | \$20,789              | \$15,182               |
|  | <i>Mean</i>                   | \$22,955                            | \$9,732               | \$3,284                |
|  | <i>Number of Participants</i> | 13,233                              | 6,826                 | 7,964                  |
| 2008                                     | <i>Average</i>                | \$75,408                            | \$20,566              | \$12,904               |
|  | <i>Mean</i>                   | \$17,617                            | \$10,000              | \$3,490                |
|  | <i>Number of Participants</i> | 18,342                              | 8,581                 | 10,219                 |

The **average participant contributions to nonqualified plans have generally held steady** throughout the three-year period. Average employer contributions show an ebb and flow with economic conditions. This demonstrates that key employees value these benefits as a personal opportunity to save additional money for retirement, regardless of changes in employer contributions.

## How Are Regulatory and Legislative Changes Affecting Plan Sponsors?

New accounting standards and Department of Labor (DOL) regulations now require more disclosure and transparency for retirement plan information. As plan fiduciaries, plan sponsors must take the necessary steps to comply with the new requirements. **It is expected that they will look to their retirement services providers to help support them through the changes.**

- The Financial Accounting Standards Board (FASB) issued the *Statement of Financial Accounting Standards No. 157 (FAS 157)*, which requires fair value measurement disclosures in retirement plan financial statements. For plan years beginning after November 15, 2007, FAS 157 requires that the retirement plan's financial statements reflect disclosure of the measurements used to determine the fair value of plan assets.

The DOL is enforcing the requirement that plan sponsors, as plan fiduciaries, must formally document the processes the plan sponsor is taking to monitor, review and understand the valuation of assets within their retirement plan(s).

- The DOL has new regulations for *Form 5500*. For the 2009 plan year (filed after January 1, 2010), federal regulations now require additional information to be reported on the Form 5500 Annual Report and mandate its electronic submission.
- Beginning with the 2009 plan year Form 5500 filings, large plan filers (generally plans with 100 or more participants at the beginning of the plan year) will report plan fees and expenses in greater levels of detail under *Schedule C*.

In addition, the DOL recently issued **Field Assistance Bulletin (FAB) 2009-02**. This guidance recognizes the concern of 403(b) plans in the ability to provide accurate financial schedules in the Form 5500 filing, and provides some relief.

The DOL is expected to issue additional guidance, and possibly regulations, in the future to address the Form 5500 requirements for years subsequent to 2009.

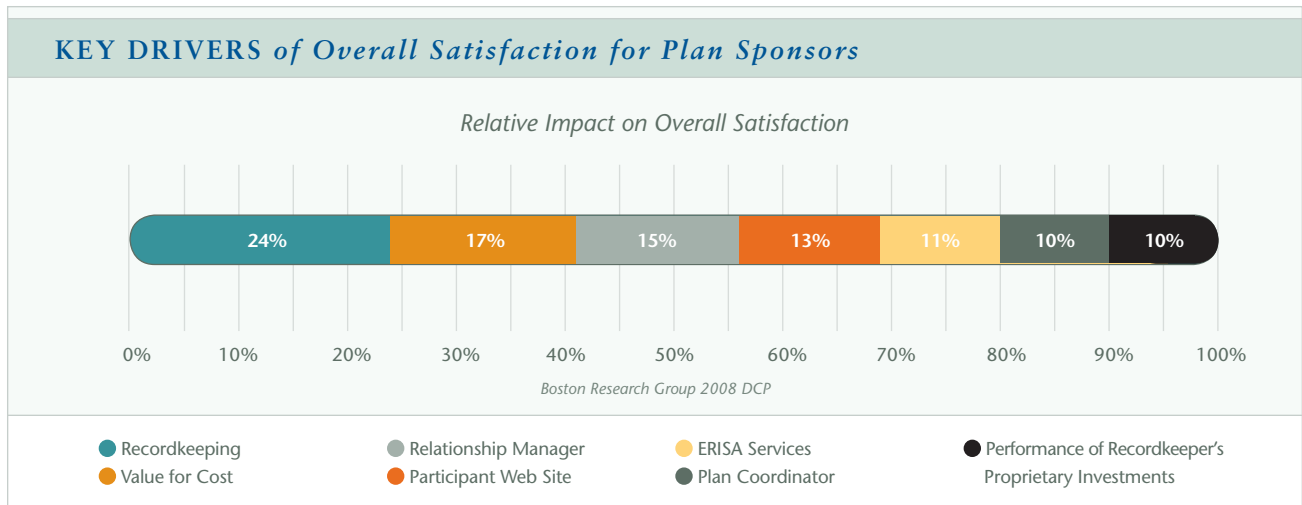
More requirements may come from legislative changes. Congress is currently considering additional disclosure requirements related to fees charged to the plan and participants, as well as possible changes related to the provision of investment advice.



## Back to the Basics

EBRI has found that plan sponsors are now seeking retirement services providers that bring a robust set of highly valued quality services at a reasonable price.

Newer and underutilized “bells and whistles” are of less importance than improvements in the overall process, simplified solutions and value-added services.



**Services for both the plan sponsor and participants are key for plan sponsors' overall satisfaction with their service providers.** In an analysis of sponsors of retirement plans with services provided by The Principal, the key decision-makers tend to focus more heavily on those areas that help meet fiduciary obligations (such as employee education), while the daily contacts place more of an emphasis on items that help the plan run smoothly (participant Web site, plan sponsor Web site).

In a recent study, we found similar satisfaction-drivers specific to nonqualified deferred compensation plans.<sup>18</sup>

Plan sponsor drivers of satisfaction for a positive deferred compensation plan experience include:

- Teaming with the recordkeeper on administrative challenges
- Offering the latest and best technology

**We expect that value and employee education will increase in importance with plan sponsors in 2009.** We've already seen signs of plan sponsors placing more emphasis on value, as cost was listed as the top selection criteria for plan sponsors who participated in the 2008 *Spectrem DC Market Needs Study*.



# Methodology

## Data Selection

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### **This report includes data on the following:**

#### *Full-service retirement plans:*

- 2008 data: 35,000 plans with a balance as of year-end 2008. These plans represented approximately 3.7 million plan participants and \$79.9 billion in assets under management.
- 2007 data: 36,000 with a balance as of year-end 2007. These plans represented approximately 3.5 million plan participants and \$102.8 billion in assets under management.

#### *Employer security plans (ESOP and KSOP):*

- 2008 data: 891 plans covering 666,193 participants with over \$18.5 billion in assets under management.
- 2007 data: 841 plans covering 656,763 participants with over \$18 billion in assets under management.

#### *Defined benefit plans:*

- 2008 data: 2,710 defined benefits contracts covering more than 320,000 lives with assets under management of \$9.8 billion in defined benefit retirement funds.
- 2007 data: 2,745 defined benefits plans covering more than 339,000 lives with assets under management of \$12.7 billion in defined benefit retirement funds.

#### *Nonqualified deferred compensation arrangements:*

- **2008 data:** 4,100 nonqualified executive benefit clients with over 4,600 plans covering 53,000 participants with liabilities of \$3.8 billion. Included in this client base are over 1,800 nonqualified deferred compensation plan clients with 2,300 plans covering 35,000 participants with liabilities of \$2.0 billion.
- **2007 data:** 4,000 nonqualified executive benefit clients with over 4,400 plans covering 47,000 participants with liabilities of \$3.7 billion. Included in this client base is over 1,600 nonqualified deferred compensation plan clients with 2,100 plans covering 30,000 participants with liabilities of \$2.1 billion.

#### *The Total View incorporates:*

- Percentages in graphs generally rounded to integer percentages in order to increase readability.
- Percentages may not total 100% due to rounding.
- Industry categories based on Standard Industrial Classification codes.

#### *Exclusions:*

- New plans effective in 2007 were excluded from the 2007 analysis.
- New plans effective in 2008 were excluded from the 2008 analysis.

## Rate Calculations

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**Calculation of participation rates**, non-participant elective deferral rates, and elective deferral rates are for active participants.

**Participation rates** are calculated by dividing the number of active participants by the total number of eligible participants. Eligible participants are those employees eligible to join the plan on or before the year-end the data is being reported on. An active participant is defined as any eligible employee who made an elective deferral contribution during the plan year being reported on.

**Analysis regarding participation rates** reflects participants and eligible non-participants. Analyses of participant asset allocation, account balances, age, compensation, and tenure include all recordkept participants. Elective deferral rate analysis reflects active participants only.

**For analysis of participation rates**, the average participation rate within each category is determined by calculating the participation rate for each plan and calculating the simple average of the plan participation rates across all plans in the category.

**Elective deferral rates for active participants** are calculated using current plan year employee elective deferral contributions divided by plan year-end compensation.

Compensation is calculated this way:

- the previous plan year-end compensation is used for testing with a three percent salary increase assumption applied. If unavailable, then —
- two year's prior plan year-end compensation is used for testing with a seven percent salary increase assumption applied. If unavailable, then —
- an average calculated salary default is used. Average calculated salary default is calculated annually and is based on actual salaries on record from the previous plan year-end.

**The average elective deferral rate percentages for compensation, gender, tenure and participant age** are calculated using the current year elective deferral contributions for all participants in the category divided by the previous plan year-end compensation for that category.

**The non-safe harbor, safe harbor, plan size (number of participants), plan size (assets) and industry categories for the average elective deferral rates** are calculated by rolling up the plans' elective deferral contributions and dividing by the previous plan year-end total compensation within the plans.

## Other Items

- **Account Balances:** Account Balances represent the active participants' accounts as of December 31, 2007 (2007 data) and as of December 31, 2008 (2008 data), net of any outstanding loan amounts. The average account balance is calculated as total new assets in that category divided by the number of participants in that category.
- **Actuarial Data:** Actuarial data for the defined benefit plans is from our FAS No. 87 GAAP pension expense and funding systems records for those defined benefit plans for which we provide actuarial services.
- **Distributions:** Distribution statistics are shown for distributions greater than \$1,000.
- **Loans:** Loans were counted based on all active employees' loans outstanding as of December 31, 2007 (2007 data) and December 31, 2008 (2008 data).
- **Withdrawals:** Withdrawal statistics are shown for all active employees who made a withdrawal in 2007 (2007 data) and in 2008 (2008 data).
- **Highly Compensated Employee (HCE):** Employees whose salary was \$100,000+ and were among the top 5 percent of wage earners at their company in the stated year (2007 or 2008) are classified as Highly Compensated Employees (HCE) for the purpose of data for the specified year (2007 or 2008).

### Retirement professionals from The Principal contributing to the Analysis section of *The Total View 2009*:

- **Timothy Cleary**, vice president and national practice leader—ESOP
- **Andy Dalgliesh**, director and national practice leader—Nonqualified
- **Debby Edgeton**, assistant director—Individual Investor
- **Aaron Friedman**, director and national practice leader—Non-Profit
- **Danelle Kronmiller**, assistant director—Individual Investor
- **Phil Leder**, consulting actuary II and national practice leader—Defined Benefit
- **Carl Moore**, assistant director—Research
- **Cortney Thede**, consultant and national practice leader—Defined Contribution
- **Jeff Vorwerk**, assistant director—Investment Services

# Glossary

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**401(k) Plan** – a defined contribution (DC) plan which meets the requirements of Internal Revenue Code (IRC) Section 401(k). Most 401(k) plans permit employees to enter into salary reduction agreements. The employer contributes the employee’s salary deferral to the plan on the employee’s behalf. Some 401(k) plans contain a Cash or Deferred Arrangement. Under these arrangements, an employee may elect to receive all or part of an employer’s contribution in cash and have the remainder deferred under the plan.

**Account Balance** – a participant account net of outstanding loan amounts. The average account balance is calculated as total net assets in that category divided by the number of participants in that category.

**Cliff Vesting** – vests 100 percent of employer contributions after a specified number of years of service. Example: After three years of service, contributions must be fully vested.

**Defined Benefit Plan** – a type of retirement plan in which the plan sponsor provides plan participants with an anticipated benefit based on the plan’s benefit formula. The plan usually defines this amount in terms of a percentage of pay or flat dollar amount, multiplied by years of service.

**Defined Contribution Plan** – a type of retirement plan that provides an individual account for each participant and in which benefits are based solely upon the amount contributed to the account (plus or minus any income, expenses, gains, and losses allocated to the account.) Commonly used defined contribution plans include profit sharing and 401(k) plans.

**Distribution Option** – the retirement funds paid to a plan participant due to a benefit event.

**Eligible Rollover Distribution** – the distribution to an employee of all or any portion of the employee’s qualified plan benefit except the following:

- Hardship withdrawals
- Required minimum distributions

- Periodic payments
- Loans in default
- PS 58 cost of insurance
- Return of 401(k) deferrals due to
- Return of excess deferrals, excess exceeding 415 limits contributions, or excess aggregate contributions due to 401(k) testing

**Employee Retirement Income Security Act of 1974 (ERISA)** – Congress passed this pension reform bill in 1974, and President Ford signed it into law on September 2, 1974. This act provides protection and guarantees for employees covered by private pension and welfare plans, and for their beneficiaries. The U.S. Department of Labor (DOL) controls some of these provisions; the Internal Revenue Service (IRS) controls others.

**Employee Stock Ownership Plan (ESOP)** – combines a vehicle for corporate financing and an employee benefit plan. It is a defined contribution plan. Also known as Employee Stock Ownership Trust. Typically, the employer creates an employee stock ownership trust and either contributes or sells the stock to the trust. If contributing stock, the employer deducts the fair market value of the contribution as a business expense on the tax return. If the trust buys the stock, it may take a loan with a lending institution pledging the stock as collateral. The employer may also guarantee the repayment of the loan. The trust then pays off the loan from contributions it receives from the employer. The employer gets a tax deduction for contributions made to the trust (generally limited to 25 percent of covered employees’ payroll). Employees do not pay taxes on these contributions until receiving a distribution. Normally, if borrowing the money, the employer could deduct only the interest on the loan. In the ESOP situation, the employer may deduct the full amount of the contributions used to pay off the principal and interest of the loan. No set benefits apply to an ESOP since all benefits relate directly to the value of the corporation’s stock. Also, an ESOP, like other defined contribution plans, receives no guarantees from Pension Benefit Guaranty Corporation.



**Fiduciary** – a fiduciary holds or controls property for the benefit of another. ERISA defines a plan fiduciary as any person who:

- has discretionary authority or discretionary control over the management of a plan or the management or disposition of its assets.
- gives investment advice for a fee or other compensation, direct or indirect, with respect to any money or other property of such plan, or has any authority or responsibility to do so.
- has any discretionary authority or responsibility in running a plan. In general, being a fiduciary shows a relationship of trust and confidence. Plan fiduciaries include trustees, plan administrators, and investment advisors.

**Funded Status** – a comparison of plan assets and liabilities. Funded status varies based on assumptions and methods used to determine assets and liabilities.

**Matching Contributions** – contributions made for a participant by an employer when the participant makes salary deferral or non-elective contributions.

**Nonqualified Deferred Compensation Plan (NQ)** – a pension or profit sharing plan which meets the Internal Revenue Code (IRC) section 409A qualified plan requirements.

**Participant** – a person who has met the plan eligibility requirements to be covered under a plan.

**Plan Sponsor** – the entity that starts and/or maintains a retirement plan. An entity can consist of a single employer, an employee organization (union), or a group of two or more employers or employee organizations.

**Principal Total Retirement Suite<sup>SM</sup>** – a bundle of comprehensive plan and administrative services, including two or more of the following plan types: qualified defined benefit, qualified defined contribution, qualified employee stock ownership plans, or nonqualified retirement plans (defined benefit and defined contribution).

**Prototype (Proto) Plan** – a retirement plan document made up of two parts (the basic plan and the adoption agreement) which is submitted by the document sponsor to the Internal Revenue.

**Rollover** – the transfer of an eligible rollover distribution from a qualified plan or an Individual Retirement Account (IRA) to an individual and then from the individual to another qualified plan or IRA. When the transfer occurs within 60 days of the distribution date, the transfer will be on a tax-free basis. Participants may elect to rollover the account balance only when a “benefit event” occurs (retirement, death, or disability). Some plans allow participants age 59½ and still active to rollover retirement funds.

**Salary Deferral Percentage** – the ratio of (1) an employee’s elective deferral contributions for the plan year; and (2) the employee’s pay for the plan year.

**Vesting** – the period of time an employee must work for an organization before earning the right to receive a contribution or benefit under the plan. For 401(k) plans, participant salary deferrals are immediately vested, but employer contributions may be vested over a period of years.



WE'LL GIVE YOU AN EDGE®

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Investment options are subject to investment risk. Shares or unit values will fluctuate and investments, when redeemed, may be worth more or less than their original cost.