

Defined Contribution Plans

Offering more than one retirement plan is just one way to give a boost to 401(k) plans and other types of defined contribution (DC) plans. The data also reveals other success factors, including **one-on-one assistance, employer matching contributions, and “do-it-for-me” features** like automatic enrollment, automatic deferral increases, and lifecycle investment options.

The importance of one-on-one assistance from retirement professionals

Making decisions about saving and investing for retirement can be intimidating to many employees. It’s no surprise, then, that the 2006 Retirement Confidence Survey¹ found that individuals who’ve received assistance from a financial professional when making retirement saving and investment decisions are more confident that they will

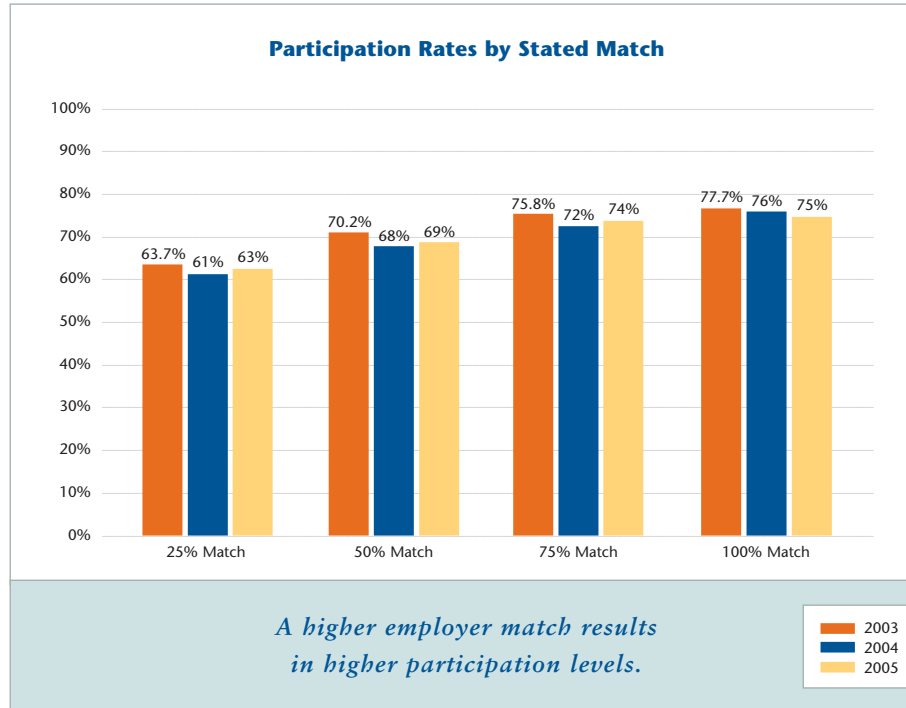
have enough money for a comfortable retirement. This finding supports the philosophy of the Principal Retire SecureSM program. By offering one-on-one assistance from salaried retirement specialists at the worksite, **Principal Retire SecureSM makes it easier for employees to get the knowledge and support they need to help plan for a more financially secure retirement.**

The numbers show that this strategy works. **Plans that offer Retire Secure boast an average deferral rate that’s a 6 percent increase over the norm;** the average participation rate for Retire Secure plans is an 8 percent increase over the norm. Use of the program is spreading, as the number of plan sponsors offering Principal Retire SecureSM to their employees dramatically increased by over 100 percent in 2005.

	Plans with Principal Retire Secure SM	Plans without Principal Retire Secure SM
AVERAGE DEFERRAL RATE	7.5%	7.1%
AVERAGE PARTICIPATION RATE	73.3%	68.0%

¹2006 Retirement Confidence Survey sponsored by Employee Benefit Research Institute, American Savings Education Council, and Matthew Greenwald & Associates





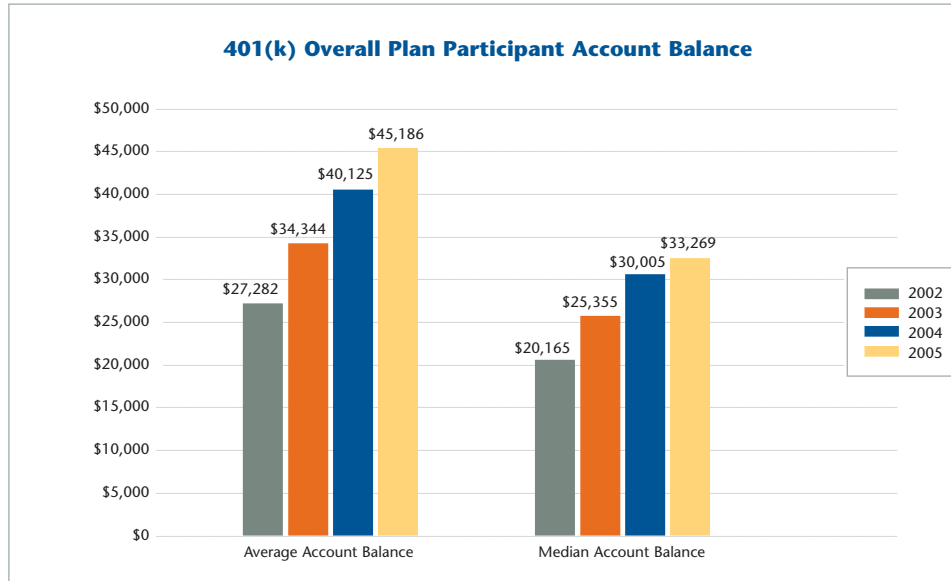
The match can make the difference

The higher the match, the higher the participation rate, according to data from The Principal. Participation rates increase by 12 percent as employers move from a 25 percent company match to a 100 percent company match. Participation rates are 13 percent higher for companies offering a 100 percent match versus companies offering no match.

The 2005 Retirement Confidence Survey² supports this finding. Seventy percent of workers currently not participating in their employer’s retirement plan would be more likely to begin contributing if their employer offered a 5 percent match, according to the survey.

Employer matching contributions increased in 2005. The average percent-of-pay matching contribution in 2005 was 2.14 percent, which was higher than the 2004 average of 2.06 percent, but lower than the market average for 401(k) plans of 2.9 percent, according to the Profit Sharing Council of America. The average dollar match increased in 2005 to \$0.41 from \$0.38 per dollar in 2004.

²2005 EBRI/Greenwald Retirement Confidence Survey



Investment returns and participant contributions have led to yet another year of double-digit increases for average account balances. The average account balance has increased by 13 percent from 2004 and by more than \$15,000 since 2002. This increase in average account balances is seen across the industry. According to a study conducted by the Employee Benefit Research Institute and the Investment Company Institute, the average 401(k) account balance increased by 50 percent from 1999 to 2005.

Defined Contribution Fast Facts

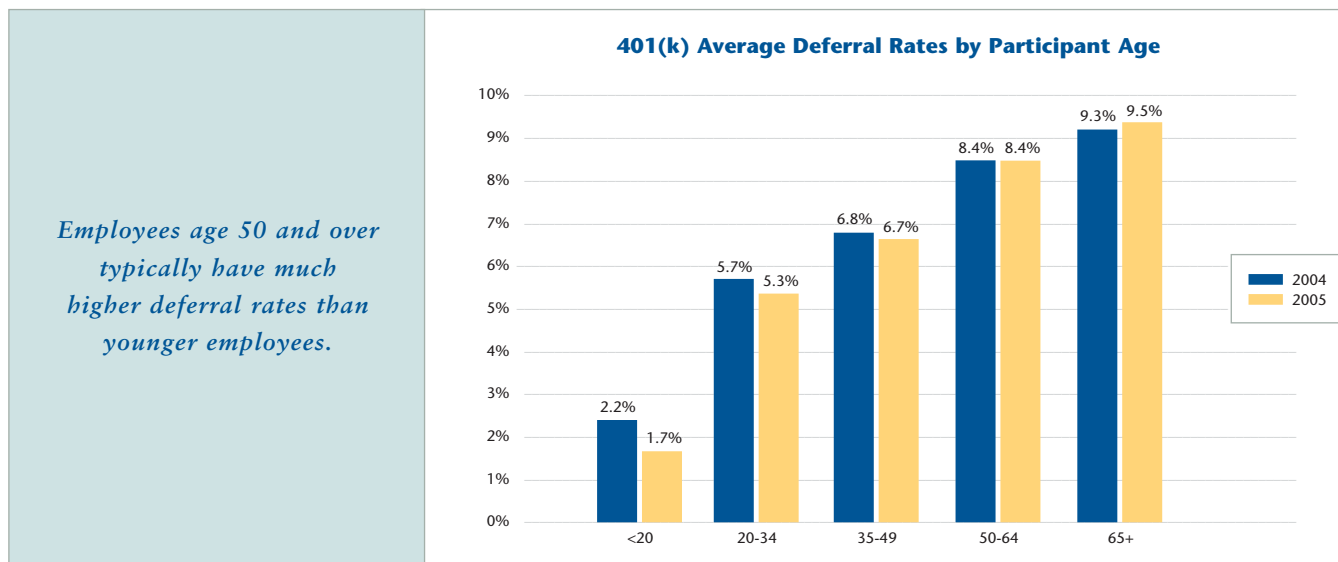
Account Balances

- *Average account balance increases since 2004 for:*
*All participants: **13%*** | Women: **11%** | Men: **12%***
*Highly compensated employees: **16%***
*Non-highly compensated employees: **11%***
- *Average account balance for employees with:*
*16 or more years of service: just under **\$100,000***
*Less than one year of service: **\$4,000***

*Among plans where The Principal provides plan services, data for *all participants* includes employees for whom gender data is not coded.

Deferral Rates

- Average pre-tax deferral rate: **7.1%**
- Average default deferral rate for plans using automatic enrollment: **3.3%**
- Most common default deferral rate for plans using automatic enrollment: **3%**
- Average default deferral rate for plans using the Smart Start* option: **5%**
- Deferral rates are traditionally higher for employees who are:
 - Male | Age 50 or older | Highly compensated
 - Long-term (have been with the company for 10 or more years)
 - Able to access more than one retirement plan through their employer



Participation Rates

- Overall participation rate: **68%**
- Businesses in the financial, insurance, and real estate industry have the highest participation rates, both within The Principal client base and the marketplace as a whole.³
 - Younger individuals participate at much lower rates than older employees. Those aged 50 – 64 years old participate at the highest rates (73%).
- Individuals with a salary greater than \$30,000 participate at significantly higher rates than those making less than \$30,000.
- Participation rates are 6% higher in plans that offer automatic enrollment.

³Profit Sharing Council of America

*Smart Start allows employees to choose the salary deferral rate pre-set by their employer (typically set to coincide with the employer match).