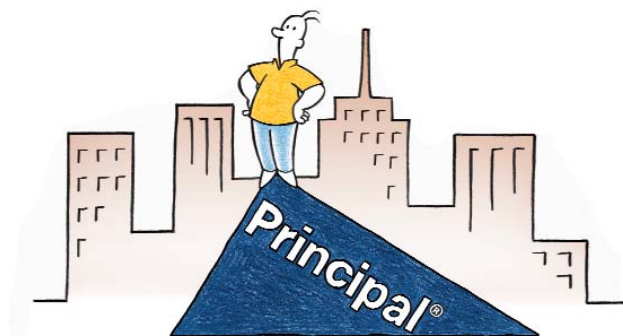


2006 Retirement Plan Trends*

The Total View



*Based on 2005 calendar year



Whatever your point of view, there's little doubt that the retirement industry is changing.

More and more employers are using a **total retirement solutions** strategy for a simpler, streamlined approach to plan management. Employees, frustrated by the complexity of retirement planning, are increasingly turning to “**do-it-for-me**” solutions like automatic enrollment and lifecycle investment options. Even Uncle Sam is stirring the pot with the passage of the **Pension Protection Act (PPA)**.

As the nation's **401(k) leader***, the **Principal Financial Group®** is at the **forefront of these changes**. The 2005 data in this update to **The Total View** — the only report to include data from the four most common plan designs — provides a **unique snapshot of the evolving trends** and their impact on The Principal® block of business.

All data is as of 12/31/05 unless otherwise noted.

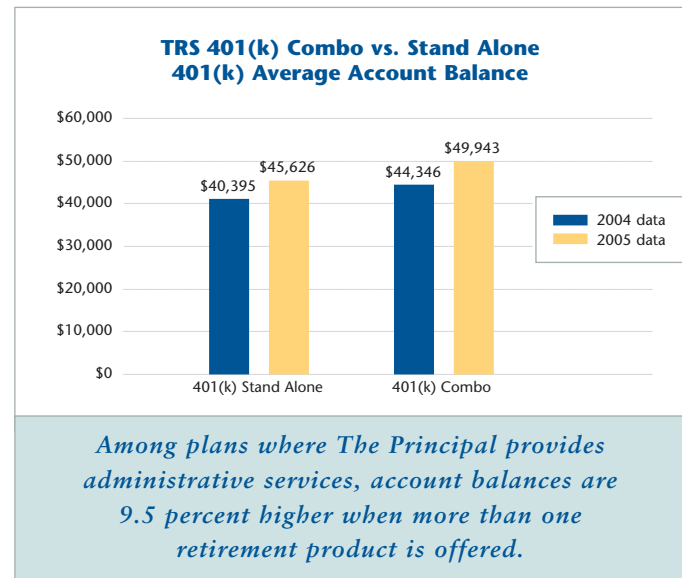
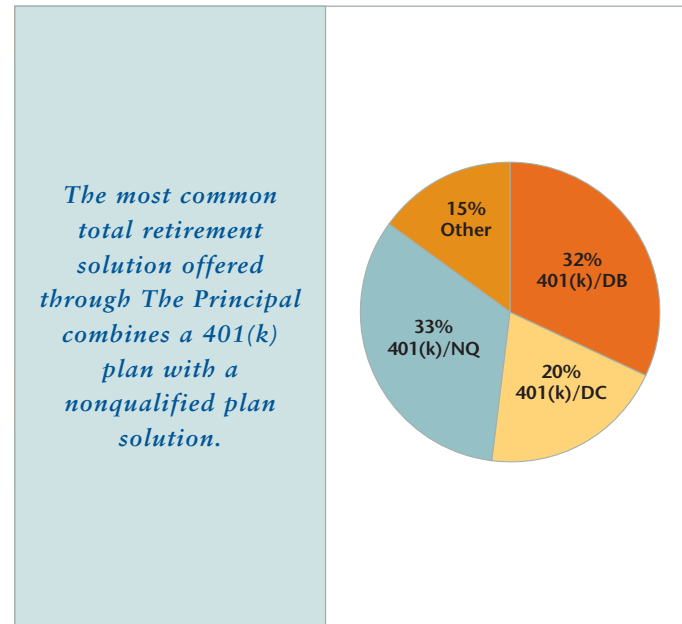
*The Principal ranks No. 1 in plans among companies that provide both administrative and investment services (2006 Spectrem Group analysis of fully bundled 401(k) providers).

Total Retirement Approach

As employers seek ways to save time and money on retirement plan administration, they are **increasingly pursuing a total retirement solutions approach** — using the same service provider for multiple retirement plans. Well-coordinated service from a single provider can simplify employee benefit data management, speeds service to both employers and participants, and even eases compliance work.

Those advantages have made total retirement solutions one of the fastest-growing trends in retirement today. **At The Principal, the number of new total retirement solutions clients more than doubled between 2004 and 2005**, as did the amount of new total retirement solutions assets. The most common retirement product combination is 401(k) and nonqualified (NQ) plans, followed by 401(k) and defined benefit (DB) plans.

In addition to fewer administrative headaches, **employers who use a total retirement solutions approach typically enjoy higher employee salary deferral rates and account balances**. Among plans where The Principal provides administrative services, account balances are 9.5 percent higher when more than one retirement product is offered.



Total Retirement Solutions Fast Facts

In 2005, 39% of new assets involved more than one retirement plan.

The number of total retirement solutions plan sales and assets more than doubled.

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

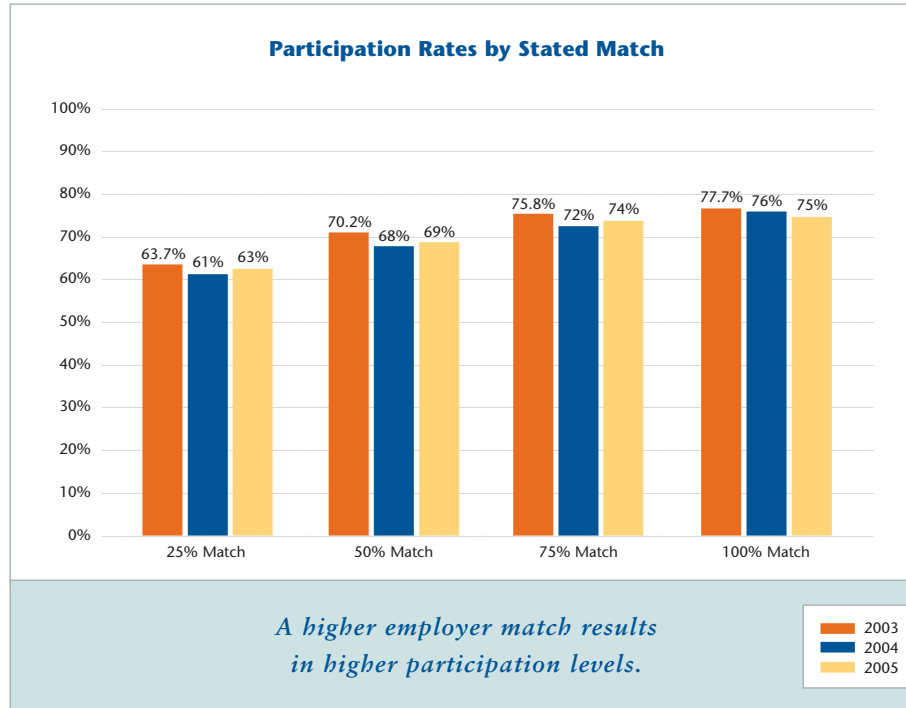
have enough money for a comfortable retirement. This finding supports the philosophy of the Principal Retire SecureSM program. By offering one-on-one assistance from salaried retirement specialists at the worksite, **Principal Retire SecureSM makes it easier for employees to get the knowledge and support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





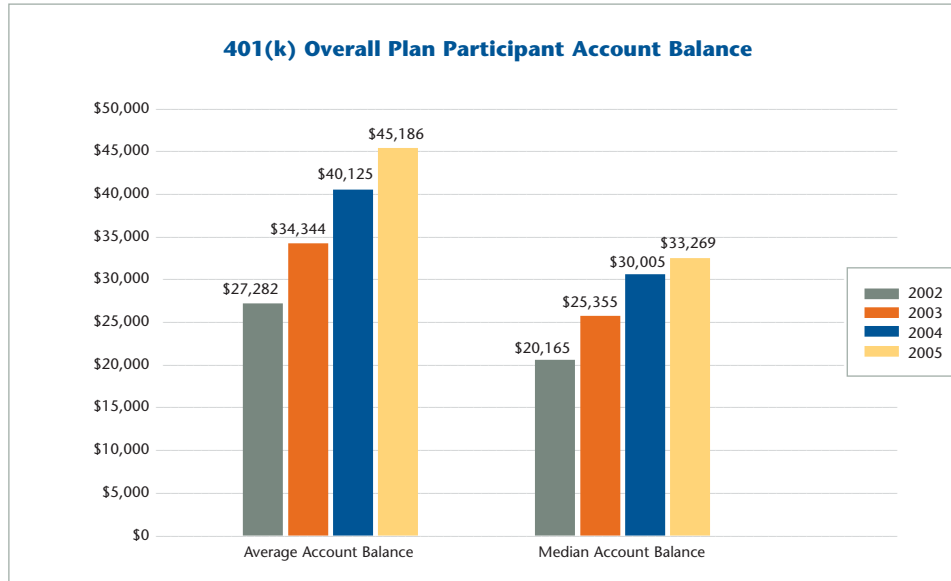
The match can make the difference

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

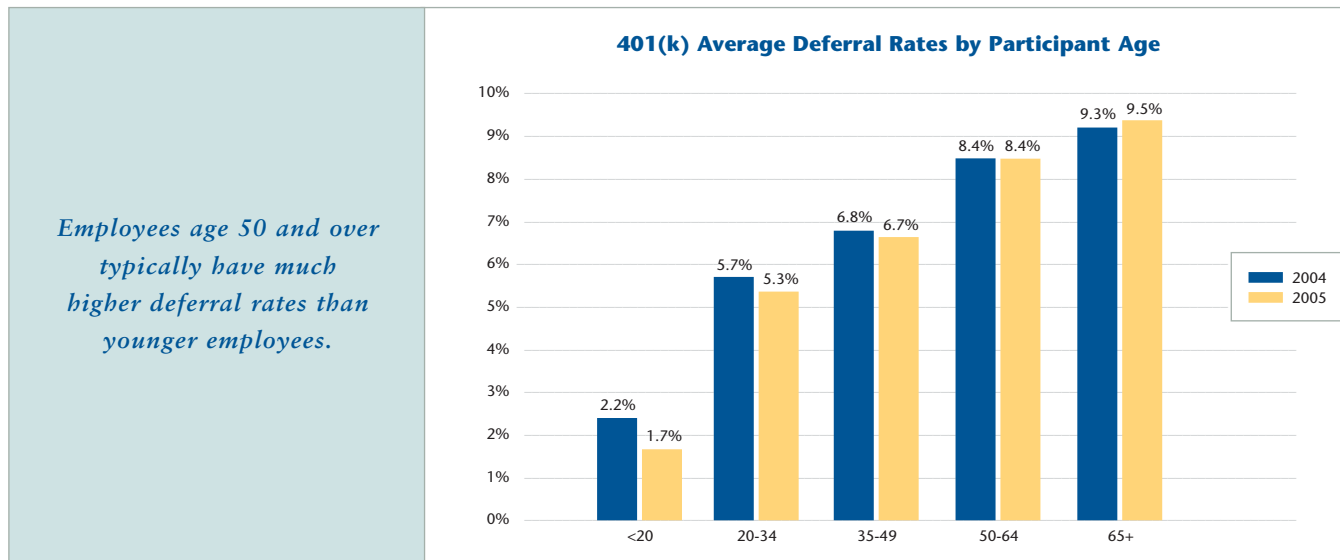
Account Balances

- *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).

“Do-it-for-me” Solutions

When it comes to saving for retirement, **many employees are so worried about making the wrong decisions that they make no decisions at all.** As a result, employers and employees alike are turning to “do-it-for-me” options including automatic enrollment, Easy Enrollment, automatic deferral increases, and investment tools.

By the end of 2005, more than 3,500 employers had signed up to offer their employees one or more of the many “do-it-for-me” options from The Principal. The resulting data proves that **automatic solutions deliver results.**

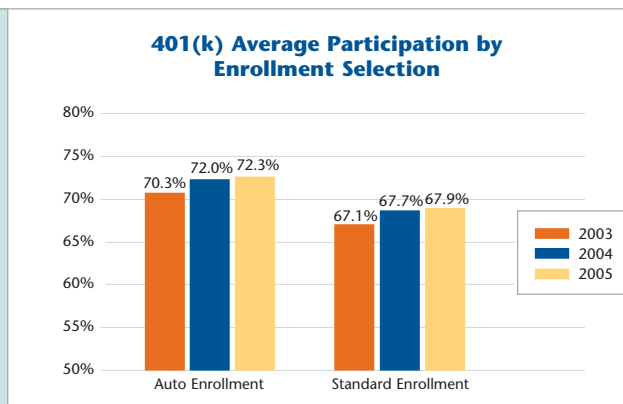
Automatic enrollment

Participation rates are 6 percent higher in plans that offer automatic enrollment.

The Principal has seen a 66 percent increase from 2004 in the number of plan sponsors offering this feature. Industry-wide, more than 12 percent of 401(k) plans offer automatic enrollment.⁴

More and more employees are open to the idea of automatic enrollment. According to The Principal Financial Well-Being IndexSM from the second quarter of 2006, a significantly higher percentage of employees (59 percent) agree with automatic enrollment compared to 2002, when only 35 percent agreed. Even in 2004, only 36 percent of employees agreed with automatic enrollment. In fact, two in three non-participating workers indicate they would be likely to stay in the retirement plan if their employer automatically enrolled them.⁵ Passage of the Pension Protection Act will undoubtedly increase automatic enrollment acceptance in 2007.

Automatic enrollment is an increasingly popular way to boost participation. Automatic enrollment generally applies to new hires.



⁴Profit Sharing Council of America's 48th Annual Survey

⁵2005 EBRI/Greenwald Retirement Confidence Survey

“Do-it-for-me” Fast Facts

Over 3,500 employers have signed up to offer one or more “do-it-for-me” options to their employees.

Plans offering automatic enrollment have seen a 6% higher participation rate.

Plans utilizing Easy Enrollment have seen a 3% increase in participation.

The number of employers that use the Principal LifeTime and Russell LifePoints portfolios as their default investment option has nearly tripled.

More than 2,000 employers and 10,000 employees elect automatic deferral increases through the Principal Step Ahead Retirement OptionSM.

Easy Enrollment

Available on paper or online, Easy Enrollment offers another “do-it-for-me” approach for participants. Rather than automatically enrolling employees in the retirement plan, Easy Enrollment allows them to sign up — in just three simple steps. This gives employees an easy way to get started, increase their contributions automatically over time, and elect an asset allocation investment option. In 2005, **plans that used Easy Enrollment increased participation by 3 percent.**

With Easy Enrollment, employees can:

1. **Enroll in the plan with Smart Start**, which allows employees to choose the salary deferral rate pre-set by their employer (typically set to coincide with the employer match). More than 1,500 clients of The Principal have elected to use the Smart Start option, giving them a 6 percent higher participation rate than average. The average Smart Start deferral rate is 5 percent.
2. **Automatically increase their deferrals with Step Ahead**. This feature allows employees to select a percentage increase each year for a set number of years. More than 2,000 employers — and 10,000 employees — use this option. The average annual increase for these participants is 1.5 percent for an average of just over four years.
3. **Allocate their investment options — or leave it to the professionals**. Employees who don’t feel comfortable selecting their own investment mix can opt for a “do-it-for-me” investment option like the Principal LifeTime portfolios, the Russell LifePoints portfolios, or the Principal Managed Account ProgramSM.

Investment Options Fast Fact

More than 600,000 participants have retirement funds invested in Principal LifeTime or Russell LifePoints® investment options offered through The Principal.

“We really push the lifecycle investment options, because the biggest reason people don’t participate is they don’t know about investing, and it scares them.”

— Wayne Wood, president, Michigan Farm Bureau, one of The Principal 10 Best Companies for Employee Financial Security — 2006

Lifecycle Investment Options and Managed Accounts

Just as participants can elect “do-it-for-me” options to help increase their retirement savings, they can choose “do-it-for-me” lifecycle investment options to help simplify investing. Lifecycle investment options are considered either target-date or target-risk. Target-date investment options, like the Principal LifeTime portfolios, are managed according to a specific target retirement year. Target-risk investment options, such as the Russell LifePoints portfolios, are based on various risk profiles.

Lifecycle options help take some of the worry about asset allocation

out of investing, which is why more than 600,000 participants have elected to contribute to the Principal LifeTime portfolios or Russell LifePoints portfolios. Seventy percent of plan sponsors with plan services through The Principal offer a lifecycle investment option — a significant increase from 2004, when less than 40 percent of sponsors offered this type of option.

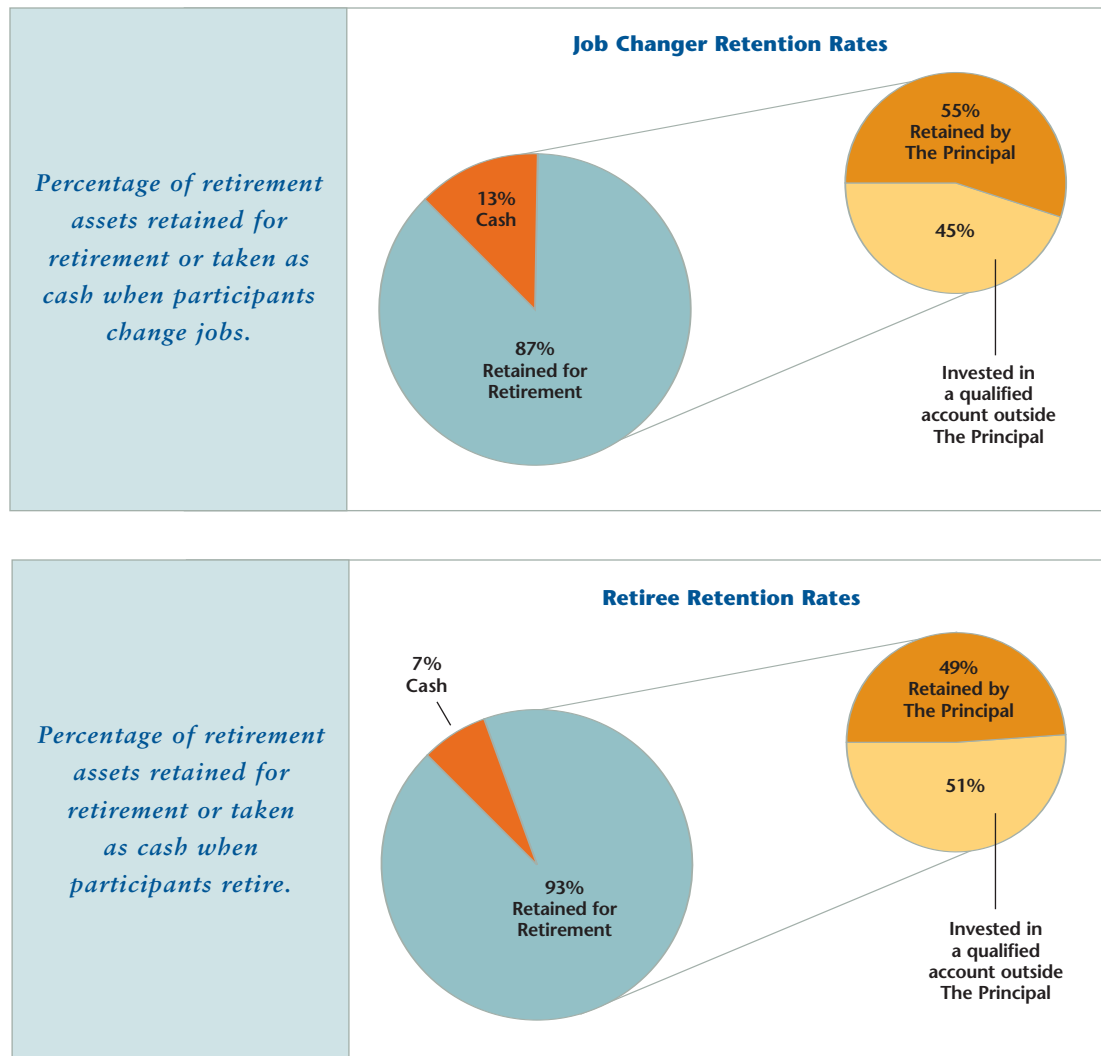
In 2006, **an increasing number of plan sponsors — nearly triple the number from 2004 — have selected Principal LifeTime or Russell LifePoints portfolios as their default investment option.** Not surprisingly, Principal LifeTime investment options have replaced money market investment options as the option of choice for the 15 percent of employees with all retirement funds invested in a single account.

The Principal Managed Account ProgramSM, which offers professional third-party advice, is also growing in popularity. Since its introduction in 2005, more than 400 plan sponsors have added the Principal Managed Account ProgramSM to their plans.

To Roll Over or Not to Roll Over?

When employees change jobs or retire, they're faced with a big decision — what to do with their retirement savings. The most common approach for both job changers and retirees is to leave the money invested in a qualified account. At The Principal, just 13 percent of job changers and less than 7 percent of retirees elect to cash out their retirement savings.

The percentage of retirement assets that remain with The Principal (either within the plan or in another product offered by The Principal) is 55 percent for job changers and 49 percent for retirees. In the industry as a whole, the average retention rate is 36 percent.⁶



⁶Cerulli Retirement Markets 2004

Employee Stock Ownership Plans

According to the Employee Ownership Foundation's 15th Annual ESOP Economic Performance Survey, **91 percent of respondents said that creating employee ownership through an ESOP was "a good business decision that has helped the company."** Sixty-eight percent of respondents said the ESOP improved overall productivity of the company's employees, and 72 percent also indicated they outperformed the Dow Jones Industrial Average, the NASDAQ Composite, and the S&P 500.

The Principal provides administrative and consulting services to more than 700 plans with employer securities, covering both public and private companies. These plans represent over \$16 billion in assets and more than 350,000 participants.

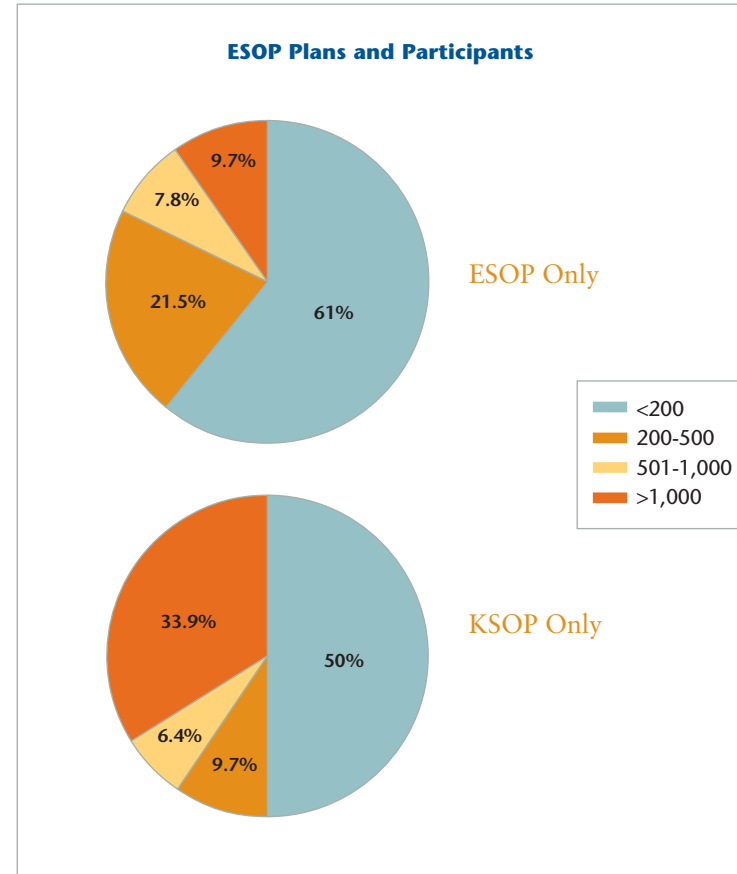
Over 75 percent of plans served by The Principal are Employee Stock Ownership Plans (ESOPs) and another 9 percent are KSOPs. Fifteen percent are considered Employer Securities, where the company stock is an investment option within a 401(k) plan. Roughly 10 percent of these plans with services provided by The Principal are public plans, which is similar to the ratio in the overall market. The Principal provides administrative services to 40 of the top 100 privately held ESOP companies.*

ESOP Fast Facts

*Number of ESOPs with plan services provided by The Principal: **600***

*ESOP assets: **More than \$16 billion***

*ESOP participants: **350,000***



"We know that we can't achieve any of our goals unless our people are fully engaged. That's why we have a stock ownership plan."

— Steve Chapman, chairman, president and CEO, ITAGroup, one of The Principal 10 Best Companies for Employee Financial Security — 2006

*The Employee Ownership 100 published by the NCEO, July 2005



Defined Benefit Plans

Although most sponsors of DB plans realize that the Pension Protection Act may result in the need for larger contributions, many (63 percent) expect the actual impact to be manageable. Seventeen percent of respondents say they are likely to eliminate their plans for future hires, and 5 percent will likely freeze benefits for current employees; however, **almost half (49 percent) intend to continue their current pension plans with the same or similar benefits as are offered today.**⁷

Forty-five plans with plan services provided by The Principal froze or terminated in 2005; most plans were from smaller employers, and the average size of DB plan that is freezing is just over \$1 million.

Many larger employers, however, are using a total retirement solutions approach — consolidating all retirement plans with one service provider — as a way to keep their DB plans. In 2005, 30 larger companies saw the value of total retirement solutions and moved their plan services to The Principal. The assets received from the new plan sales are three times greater than the assets in the terminated and frozen plans.

DB Fast Facts

DB retirement payments made:
\$2.7 million

Number of retirees receiving DB payments:
217,167

Average pension accounting funded status: **83%**

Plans that are 100% funded or higher for pension accounting: **17%**

Average preretirement interest rate: **7.1%**

Average postretirement interest rate: **6.8%**

As a leader in total retirement solutions, The Principal saw a 168% increase in new defined benefit assets from 2004 to 2005.

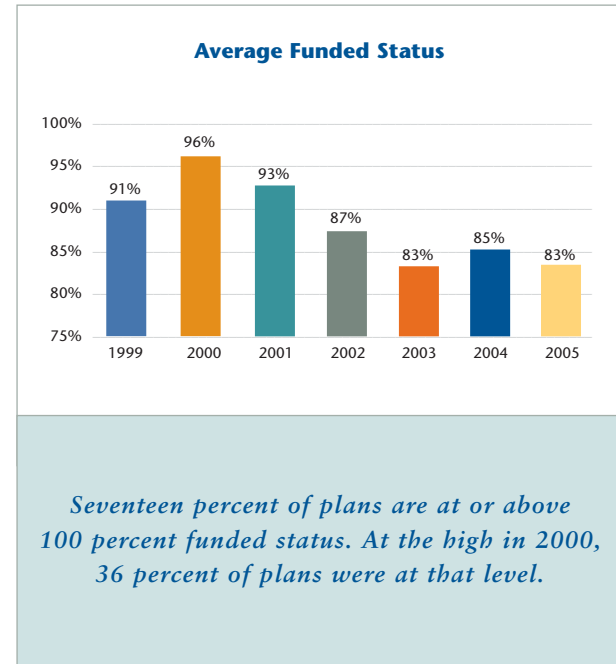
⁷Towers Perrin survey, October 2006

Accounting for Defined Benefit Plans

A DB plan's funded status, as defined by Generally Accepted Accounting Principles (GAAP), is a comparison of plan assets and liabilities. At The Principal, most plans use the market value of assets for this comparison. Liabilities include all benefits based on service accrued to date along with a projection of future salary increases to the benefit commencement date. A discount rate is used to calculate the value of plan liabilities. This rate is determined by the plan sponsor and based on current economic conditions. As discount rates drop, plan liabilities increase.

Among DB plans with plan services provided by The Principal, the average funded status is 83 percent. Over the past seven years, the average funded status reached its peak in 2000 at 96 percent. Seventeen percent of plans are at or above 100 percent funded status. The highest percentage of plans at or above 100 percent funded status during the past seven years was 36 percent, which occurred in 2000.

Discount rates have been on a steady decline since 2000. In 2005, the average discount rate dropped to 5.6 percent. Over the past seven years, the average discount rate reached its highest level of 7.0 percent in 2000.



Funding for Defined Benefit Plans

One way to measure a plan's funded status is to compare the actuarial value of plan assets to the Retirement Protection Act of 1994 (RPA) current liability. The RPA current liability, for plans complying with ERISA, is the present value of accrued plan benefits based on the interest and mortality rates prescribed by the RPA.

The average RPA current liability funded status is 106 percent for DB plans with plan services provided by The Principal. The average RPA current liability funded status was at its highest in 2002 at 114 percent. Plans with a funded status below 90 percent are subject to an additional funding requirement.

One significant assumption used in determining the required annual funding of DB plans is the interest rate. The interest rate helps estimate

the value of plan liabilities. The preretirement interest assumption may differ from the postretirement rate that is used to value liabilities on or after retirement. The preretirement interest rate reflects what plan assets are expected to earn, while the postretirement interest rate reflects the value of the liability at retirement.

The average preretirement interest rate remains unchanged from 2004 at 7.1 percent. The maximum also remains unchanged at 8.5 percent, while the minimum has declined to 3.5 percent from 4.0 percent since 2004.

The maximum and minimum postretirement interest rates are the same as the preretirement rates. The average postretirement interest rate is lower at 6.8 percent.

DB plan data shown here was collected from approximately 900 DB plans for which The Principal provides actuarial services.

Nonqualified Plans

The majority (59 percent) of employers offer deferred compensation plans in order to help restore benefits lost to highly compensated employees under 401(k) plans, according to PLANSPONSOR's Deferred Compensation Plan Survey, December 2005. Eighty-five percent of those surveyed favor a defined contribution deferred compensation plan, while just half as many (41 percent) offer a defined benefit type of program. The defined benefit deferred compensation plan is typically found in companies that offer a qualified defined benefit plan.

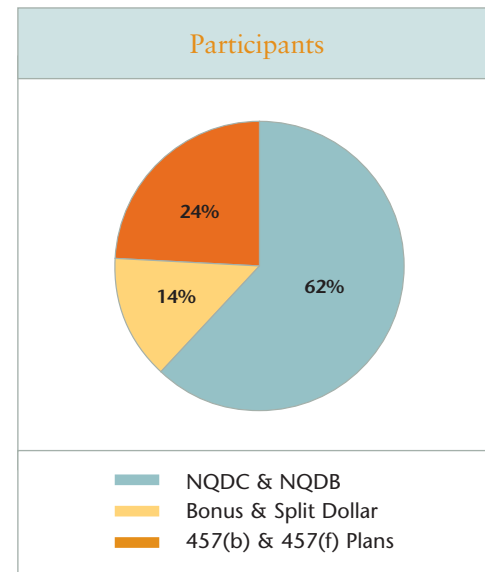
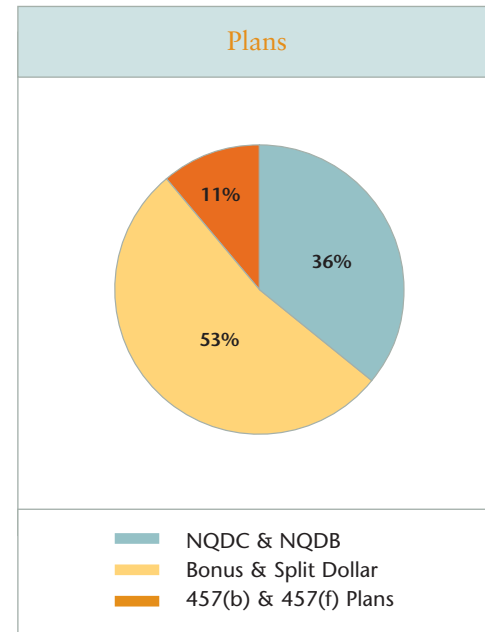
The Principal provides services to more than 3,400 nonqualified retirement plans and over 36,000 participants. Over 60 percent of participants are in nonqualified DC and nonqualified DB plans. These types of plans represent 36 percent of the plans with plan services provided by The Principal. Deferred compensation plans are the core of the nonqualified executive benefit platform at The Principal.

Based upon the number of plans with plan services provided by The Principal, slightly over half are Bonus and Split Dollar plans. Because these plans are designed to cover a select number of participants within an organization, they represent only 14 percent of participants. The remaining nonqualified plans are 457(b) and 457(f) plans, which make up 11 percent of all nonqualified plans and 24 percent of nonqualified plan participants.

Nonqualified Fast Facts

*NQ plans with plan services provided by The Principal: **Over 3,400***

*NQ plan participants: **Over 36,000***





Methodology

The Total View is based on data for the 2005 calendar year, collected from approximately 30,000 full-service retirement plans and 2.4 million participants served by The Principal. In total, The Principal provides retirement plan administrative services to more than 47,000 retirement plans and serves 3.1 million participants.



WE'LL GIVE YOU AN EDGESM

Principal Financial Group
Des Moines, Iowa 50392-0001
www.principal.com

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Investors Fund is distributed by and securities are offered through Princor Financial Services Corporation, 800-547-7754. The investment advice provided through the Principal Managed Account ProgramSM is provided by Ibbotson Associates. Access to the advice and securities and advisory products are offered through Princor Financial Services Corporation, 800-274-4123, member SIPC. Princor and Principal Life are members of the Principal Financial Group, Des Moines, IA 50392.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges, and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative. Please read the prospectus carefully before investing.

Each Principal LifeTime portfolio is available through a Separate Account or Principal Investors mutual fund. Principal LifeTime Separate Accounts are made available through a group annuity contract with the Principal Life Insurance Company, Des Moines, IA 50392. May not be available in all states.

Russell LifePoints were previously made available through a Separate Account. Russell LifePoints mutual funds that invest in other mutual funds are actively managed by well-researched independent investment managers hired by Russell. LifePoints[®] and the Russell logo are registered trademarks and service marks of the Frank Russell Company. Russell Fund Distributors, Inc. is the distributor of Frank Russell Investment Company.

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in a period of declining value.