

Successes Aside, Employees Still Need to Save More

By all standard measures, 2004 was a successful year in the retirement industry. Savings behavior improved, with upward trends in deferral rates and account balances, while participation rates held steady. This is encouraging considering 75 percent of employees are concerned about their long-term financial security. (Source: *The Principal Financial Well-Being IndexSM – Third Quarter 2005*)

However, only 36 percent of employees know what their retirement will cost – compared to 94 percent who know how much a new computer would cost. (Source: *The Principal Financial Well-Being Index – First Quarter 2005*) As a society, we need to get serious about saving and planning for the long-term.

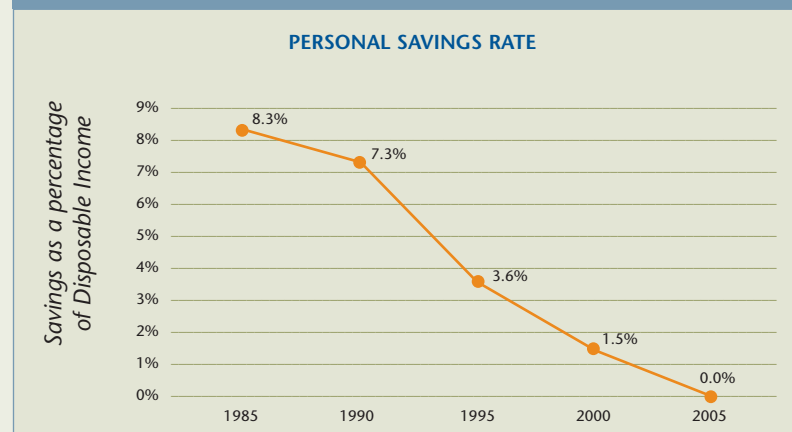
A growing concern is whether 401(k) plan accumulations for many employees will provide enough income in retirement. Most financial planning experts say a savings rate of 10 percent to 15 percent over several decades is necessary for workers to maintain their quality of life in retirement. That savings rate currently stands at 0 percent.

Social Security is not the most viable solution to a comfortable retirement; in 1950, 16 workers supported each Social Security recipient. Today, less than four workers do so, and by 2040, that number will shrink to two workers per recipient.

Many factors are at play in the future of the retirement industry. This look ahead outlines critical areas of focus for the years ahead.

The personal savings rate in the U.S. has dropped from 8.3% in 1985 to 0% today, the lowest level since the Great Depression.

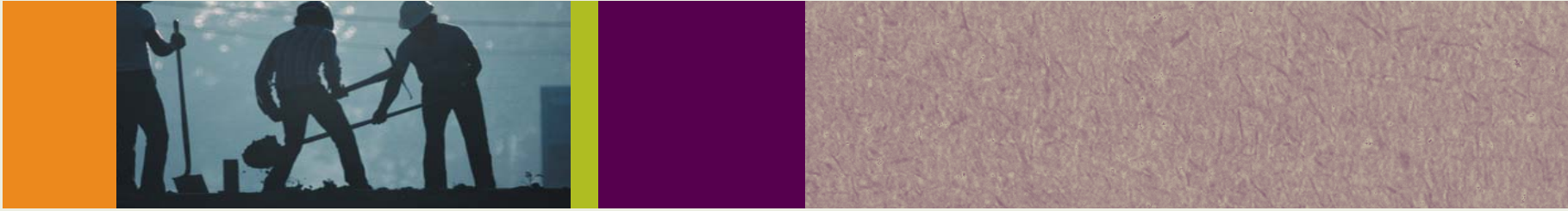
(Source: U.S. Dept. of Commerce: Bureau of Economic Analysis as of June 30, 2005)



A Total Retirement Solutions Approach

Employers are looking for ways to minimize retirement plan costs, manage bottom line impact, and maximize employee appreciation. A total retirement solution – coordinating one or more retirement plans into a streamlined, cohesive program – is a proven success in these important areas.

Within the past year, the number of plan sponsors served by The Principal seeking total retirement solutions has grown exponentially. In fact, the number of plans added for new and existing total retirement solution plan sponsors of The Principal has increased nearly 300 percent comparing 2004 to August 2005.



The Principal has brought together a complete and coordinated package of retirement solutions for plan designs, including the four critical retirement solution categories:

- Qualified defined benefit (DB)
- Qualified defined contribution (DC)
- Qualified employee stock ownership plans (ESOP)
- Nonqualified retirement (DB and DC)

In addition to cost efficiencies, a total retirement solution can provide to employees a consolidated view of retirement benefits. This increases the likelihood of a greater understanding of these benefits, and of a more successful approach to funding a secure retirement.

Participation and Salary Deferral

More than three-fourths of employees expect Social Security to provide half or less than half of their income replacement in retirement. (Source: *The Principal Financial Well-Being IndexSM – First Quarter 2005*) To fully fund retirement, more than one-third (36%) of workers say they will work longer before retiring, and nearly one-third (32%) say they plan to phase into retirement by working part-time.

On a promising front, significantly more younger workers (ages 18-34 and 35-44) “say” they will start saving more money now for retirement compared to those over age 45. But in reality, these same groups currently have significantly lower participation and contribution levels in their employers’ retirement plans.

The EBRI – 2005 Retirement Confidence Survey explored the factors that might get employees to participate more actively. The top features that draw employees into a plan include:

- A matching contribution of up to 5 percent of compensation

- An investment option that is designed for age and compensation
- A plan option to automatically increase employee contributions with each pay raise

Additionally, two-thirds of employees who do not currently contribute to their employers’ retirement plans say they would likely stay in the plan if their employer automatically enrolled them. The Principal offers automatic enrollment, as well as other programs that encourage increased saving, such as “Take the 1% Challenge[®]” and “the Principal Step Ahead Retirement OptionSM” programs, which help increase salary deferrals. We are working to simplify every aspect of retirement plan participation, from enrollment in the early years to income management during retirement.

Education and Empowerment

In today’s world, participants in defined contribution plans carry a lot of responsibilities. They must ensure that they save enough to live comfortably in retirement, and that their portfolios are balanced properly so they earn acceptable rates of return over time. Employees are often overwhelmed by the number of complex decisions which has led to inertia and inaction. The majority would like someone to “do-it-for-them.”

In fact, The Principal Financial Well Being Index (First Quarter 2005) shows more than 40 percent of American workers would prefer to have someone else manage their investment options for them. Moreover, only 36 percent of these individuals know what retirement will cost.

Employers express strong interest in improving employee understanding and appreciation of all of the benefits they provide. They want to make it easier for employees to plan for retirement and other financial needs.