Market Overview

The year 2006 put in motion some remarkable improvements in the retirement industry. Average account balances grew by double digits, the number of plan sponsors who elected "do-it-for-me" investment options continued to rise dramatically, and one of the most sweeping retirement industry pieces of legislation in the last three decades was signed into law.

Legislation Paves the Way for Workers to Keep Saving

The Pension Protection Act (PPA), signed into law in 2006, dramatically changed the retirement savings landscape. The PPA not only helps improve the funding rules for the Defined Benefit (DB) pension system, but it expands opportunities for Americans to build their own nest eggs. With much of the responsibility of retirement savings being shifted to American workers as defined contribution (DC) plans become more prevalent, the law is especially helpful for workers struggling to set aside contributions for plans such as 401(k)s.

For these savers, PPA made permanent improvements in the Economic Growth and Tax Relief Reconciliation Act of 2001 that allow workers to save more. These improvements include raising the employer deduction limit and elective deferral limits, and allowing catch-up contributions, and Roth elective deferral contributions. The law also encourages automatic enrollment, allows for accelerated vesting, and expands the portability of rollover assets and after-tax contributions, so workers are allowed to save as much as possible if they started saving late, for example. As a result, demand for auto savings tools should continue to grow.

While PPA helped pave the way for increased savings, there is still room for improvement among workers. Those surveyed in the 2007 Third Quarter Principal Financial Well-Being Index℠ recently reported that outliving their savings is a major concern that keeps them awake at night (32 percent). And while 42 percent of workers think they should save 11 percent or more of their pre-tax salary for retirement, only a small minority (11 percent) actually save this much in real life.

Employers continue to look for ways to streamline their benefits and they are increasingly using an integrated approach. By consolidating all retirement plans with one provider, employers can not only save time and money, but they can leverage their total benefit program as a recruitment and retention tool; provide employees with one common investment platform with a consolidated view of all their retirement savings; as well as offer personalized communication and education services that build employee appreciation.

Research has shown that for a retirement plan to be successful, education and communication must be personalized and relevant to each individual's life stages – pre-enrollment through retirement. The Principal responded to focus groups by developing My Principal® Edge, a unique suite of participant services that are action-oriented, personalized, and use multiple touches of communication.

Looking to the future, we are likely to see the "do-it-for-me" and automatic features trend continue. As it does, employers who offer simplified solutions for retirement planning and investment needs will be the most competitive.