

2007 Retirement Plan Trends*

The Total View





About this Report

The Total View is one of the most comprehensive reports of its kind, providing insight on the changing retirement landscape based on an analysis of proprietary data of the Principal Financial Group® (The Principal®), one of the nation's 401(k) leaders¹ and total retirement solutions innovator.

Based on data for the 2006 calendar year, this report provides an in-depth look at retirement program trends among more than 38,600 retirement plan sponsors with services provided by The Principal and approximately 3.5 million participants across four core retirement plan designs: defined contribution, including 401(k) and 403(b); defined benefit; nonqualified; and Employee Stock Ownership Plan (ESOP).

*All information and charts not sourced are based on data from retirement plans with services provided by The Principal.

¹The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers - 2006 Spectrem Group analysis of fully-bundled 401(k) providers (companies that provide both administrative and investment services).

Table of Contents

- MESSAGE FROM THE PRESIDENT 3
- EXECUTIVE SUMMARY 4
- MARKET OVERVIEW 7
- Total Retirement Approach 9**
- Defined Contribution Plans 13**
 - Account Balances 15
 - Salary Deferral Rates 17
 - Participation Rates 21
 - The Power of One-on-One 23
 - “Do-it-for-Me” Features Grow in Popularity 24
 - Automatic Enrollment is Catching On 25
 - Easy Enrollment Helps Simplify the Process 27
 - Lifecycle/Lifestyle Investment Options & Managed Accounts 29
 - Investment Options 31
 - Loan Provisions – The Facts 34
 - Rollovers & Cash Withdrawals – Most Stayed Invested 35
 - Matching Contributions & Plan Design 36
 - Plan Design: Eligibility & Vesting 37
 - Participant Services That Matter 39
 - Client Contact Center 40
- Defined Benefit Plans 41**
 - Accounting for Defined Benefit Plans 45
 - Funding for Defined Benefit Plans 47
- Nonqualified Deferred Compensation Plans 49**
- Employee Stock Ownership Plans 53**
- METHODOLOGY 57
- GLOSSARY 58

A Message from the President of The Principal

For generations, Americans were able to fund their retirements with Social Security and traditional defined benefit pension benefits. Today, millions of workers must rely on other benefits, such as 401(k) plans, as well as other personal savings and investments to save for the future and to enjoy a more comfortable retirement.



Despite these changes, it is clear that Americans are still not saving enough because national savings rates continue to be critically low. Combined with the uncertainty of Social Security, increasing longevity, inflation, and rising health care costs, American workers will likely continue to struggle to save for their retirement years.

That is why at The Principal, we feel it is more important than ever that we come together to focus on the savings trends of today's workers. As one of the nation's 401(k) leaders¹ and total retirement solutions innovator, The Principal is pleased to present *The Total View*, one of the most comprehensive reports in the industry on retirement plan trends. Based on data for the 2006 calendar year, this study encompasses more than 38,600 retirement plan sponsors and 3.5 million participants served by The Principal. It is the only report of its kind that covers the four core retirement plan designs: defined contribution, including 401(k) and 403(b); defined benefit; nonqualified; and Employee Stock Ownership Plans (ESOP).

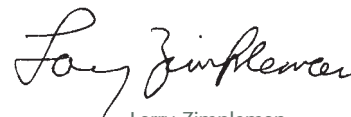
While our report shows encouraging developments in savings behavior, challenges are still on the horizon for the country's retirement picture. With the changes to the way workers save for retirement and the improvements to the regulatory landscape thanks to the Pension Protection Act of 2006, employers continue to search for additional avenues to save time and resources in administering their retirement programs, as well as promote saving among valuable employees. *The Total View* data illustrates the growing trend toward employers choosing a total integrated retirement solutions approach: multiple plans using a single service provider to help achieve cost savings and reduce resources needed

to administer their benefits. Additionally, we've found that a multiple-plan approach has a real impact on participation, deferral rates, and average account balance.

Our data indicates that employers are becoming more proactive in helping their employees plan for retirement by implementing innovative tools and services, such as "do-it-for-me" choices for investment options, easy enrollment options, as well as automated salary deferral step-up programs so employees have to make fewer decisions to get started – and easily increase their retirement contributions over time.

It is through tools and services like these that The Principal is working hard to not only increase employee retirement savings rates, but to simplify the plan sponsor's administration of retirement plans. We want to help employers and employees discover that when it comes to the future, we can make a difference in helping them take steps to achieve a more successful retirement.

Whether you use the *The Total View* as a comprehensive benchmarking tool or simply want to keep up with the trends of the changing retirement landscape, we at The Principal along with your financial professional, invite you to review some of the solid solutions we can provide to help address real industry challenges.



Larry Zimpleman

President and Chief Operating Officer
The Principal Financial Group

¹ The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers - 2006 Spectrem Group analysis of fully-bundled 401(k) providers (companies that provide both administrative and investment services).

Executive Summary

As one of the nation's 401(k) leaders¹ and total retirement solutions innovators, The Principal is pleased to present The Total View – one of the most comprehensive reports of its kind. It paints a unique picture of the ever-evolving trends in the retirement industry and their potential impact on retirement plan sponsors and their participants. The Total View includes an annual review, report card, and forecast, and it also provides plan sponsors with helpful tips that serve to compare your plan with industry benchmarks.

Based on data for the 2006 calendar year, *The Total View* includes benchmarks for an in-depth look at retirement program trends among more than 38,600 retirement plans with services provided by The Principal to approximately 3.5 million participants across four core retirement plan designs: defined contribution, including 401(k) and 403(b), defined benefit, nonqualified, and Employee Stock Ownership Plan (ESOP).

¹The Principal ranks number one in total plans for all asset sizes among fully bundled 401(k) providers - 2006 Spectrem Group analysis of fully-bundled 401(k) providers (companies that provide both administrative and investment services).

The Total View: A Summary of Findings

A Total Retirement Approach

- Approximately 58 percent of our retirement plan sales from 2006 involved more than one type of retirement plan – a 59 percent increase over 2005.
- 2006 sales of new total retirement solution plans increased 145 percent over the past year and we saw a 90 percent increase in new total retirement solution assets.
- Retirement plans that used an integrated retirement services approach typically had higher participation, larger average deferral rates, and bigger average participant account balances.

To learn more, turn to page 9.

Defined Contribution

- Defined Contribution (DC) plans such as 401(k) and 403(b) plans continue to be one of the fastest-growing employer-sponsored retirement benefits. At the end of 2006, The Principal provided administrative services to more than 32,500 DC retirement plans with 2.8 million participants that represented more than \$79.5 billion in plan assets under management.

To learn more, turn to page 14.

Participation & Salary Deferral Rates

- Participation rates were more than 10 percent higher for retirement plans with an employer matching contribution than those without a match.
- The average participation rate grew slightly to 65.9 percent.
- Salary deferral rates increased as age increased, with those aged 50-plus deferring at the highest rates and those less than 35 years old deferring at the lowest rates.

To learn more, turn to page 17.

Account Balances

- Account balances saw a double digit increase of 12 percent to an average of \$36,541.

To learn more, turn to page 15.

Investment Education & Options

- The number of plan sponsors who offer “do-it-for-me” investment features continued to rise dramatically – the number nearly tripled in the past year.
- Automatic and “do-it-for-me” features increased savings rates over traditional methods.
- Our Principal Retire SecureSM program, which offers personalized one-on-one meetings, was provided by 475 plan sponsors nationwide.
- Use of lifecycle/lifestyle investment options continued to grow dramatically in 2006, with more than 80 percent of plan sponsors offering them in their investment option line-up, which more than doubled from 2004.
- From 2005 to year-end 2006, usage of the Principal Managed Account ProgramSM grew by four times.
- On average, a retirement plan had funds in approximately 18 investment options offered within the plan.
- The largest percentage of participant retirement funds in plans with services provided by The Principal were directed to the domestic stock (43 percent) category. This was similar to the industry average where 49 percent of participant account balances were allocated to equity investment options.
- By the end of 2006, nearly 11,000 plans were using the Easy Enrollment Form from The Principal, which was a significant increase from just over 3,000 in 2005.

To learn more, turn to page 23.



Plan Loans

- The average loan balance increased from \$5,011 in 2003 to \$7,013 in 2006.

To learn more, turn to page 34.

Rollovers & Cash Withdrawals

- Younger participants, those 34 or under, elected to receive a cash distribution option more often when changing jobs than any other age group, with 20 percent taking the cash.
- Nearly 90 percent of the retirement funds for participants that changed jobs in 2006 remained invested in an account for retirement, and just over 10 percent elected a cash distribution option of their retirement funds.

To learn more, turn to page 35.

Matching Contributions & Plan Design

- Forty-two percent of employees indicated that if the dollar amounts were the same, they would prefer to receive a higher employer match in their employer's 401(k) plan than a wage increase.
- The overall average match for plans with services by The Principal was 39 cents per dollar.

To learn more, turn to page 36.

Participant Services

- The majority of participants (more than 60 percent) chose The Principal secure website to get information and make account changes.

To learn more, turn to page 39.

Defined Benefit (DB) Plans

- During 2006, DB plans totaling over \$760 million in plan assets transferred their retirement plans to The Principal for administrative services.
- The industry assets held in DB plans represent 35 percent of all industry retirement assets.

To learn more, turn to page 41.

Nonqualified Plans

- The Principal saw a 10 percent increase in the number of nonqualified plans as well as a 15 percent increase in the number of participants.
- In the fall of 2006, 85 percent of corporate plan sponsors reported offering a Nonqualified Deferred Compensation plan.

To learn more, turn to page 49.

Employee Stock Ownership Plans (ESOP)

- Nearly half (42 companies) of the nation's top 100 majority-owned ESOP companies used The Principal for their administrative services.
- A large majority of ESOP plans with services from The Principal were private plans; roughly 10 percent were public plans.

To learn more, turn to page 53.



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 IndexSM 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.



Total Retirement Approach

According to the 2007 First Quarter Principal Financial Group Well-Being Index, nearly seven in 10 employees agree that having a good employee benefits plan encourages them to work harder and perform better.

More Employers Streamline Services with an Integrated Approach

In 2006, an increasing number of employers continued looking to streamline their operations to stay competitive. Plan sponsors turned to a **total retirement solution** approach which consolidates all retirement plans with one provider. Through this integrated service approach for multiple retirement plans, plan administration can become more streamlined, helping employers save time, money, and resources as they do business.

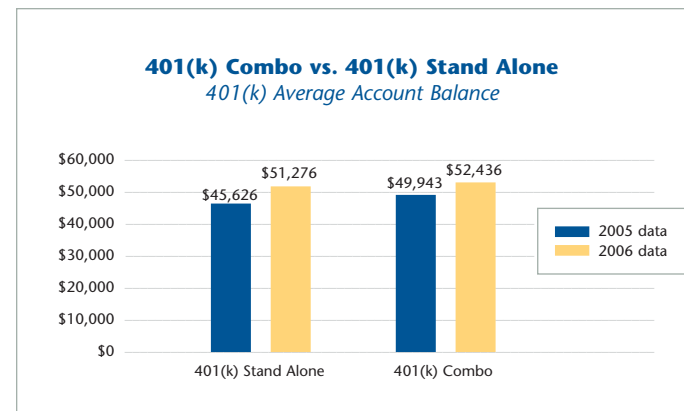
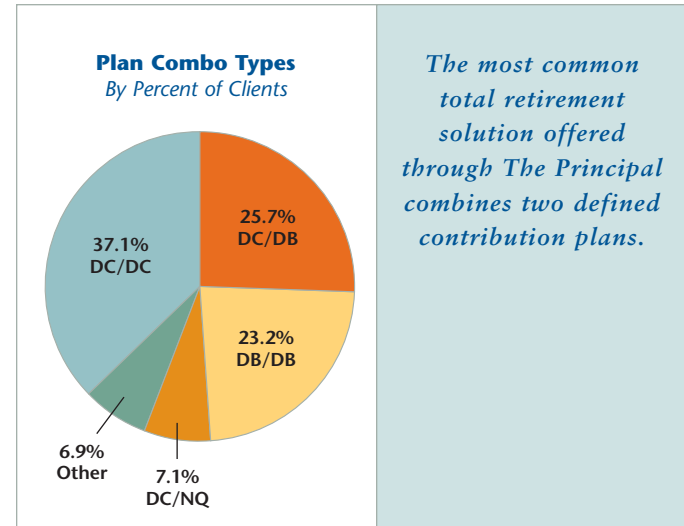
Our complete retirement solutions approach delivers comprehensive analysis and plan administrative services for various plan combinations, including:

- Qualified defined benefit (DB)
- Qualified defined contribution (DC)
- Qualified employee stock ownership plans (ESOPs)
- Nonqualified retirement plans (NQ)

Well-coordinated service from a single provider can simplify employee benefit data management, speed service to both employers and participants, and ease plan compliance work. Plan sponsors utilizing **one** service provider have just **one** company to call, **one** local service contact, **one** website to access, and **one** data entry point to update employee information for all their retirement plans.

Fast Fact

Over 4,000 retirement plan sponsors had more than one retirement plan type for their organization with recordkeeping services provided by The Principal in 2006.



Benefits for Employees

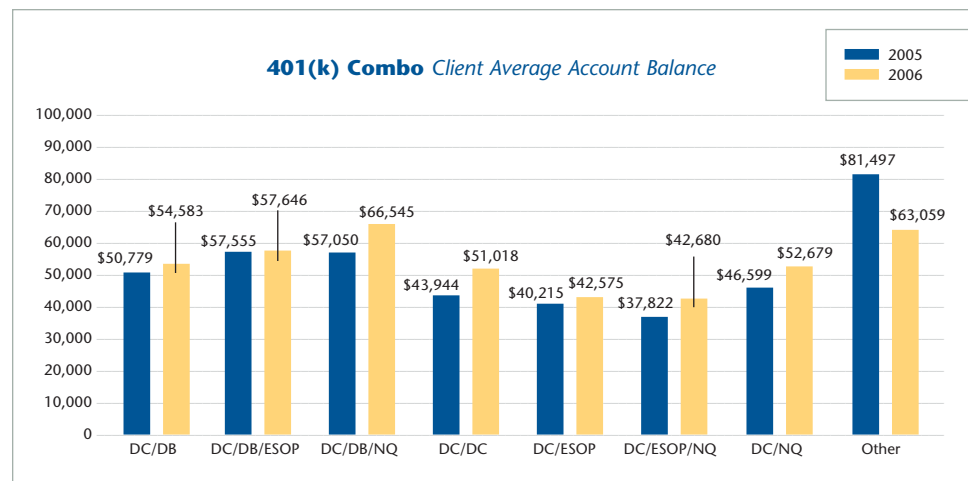
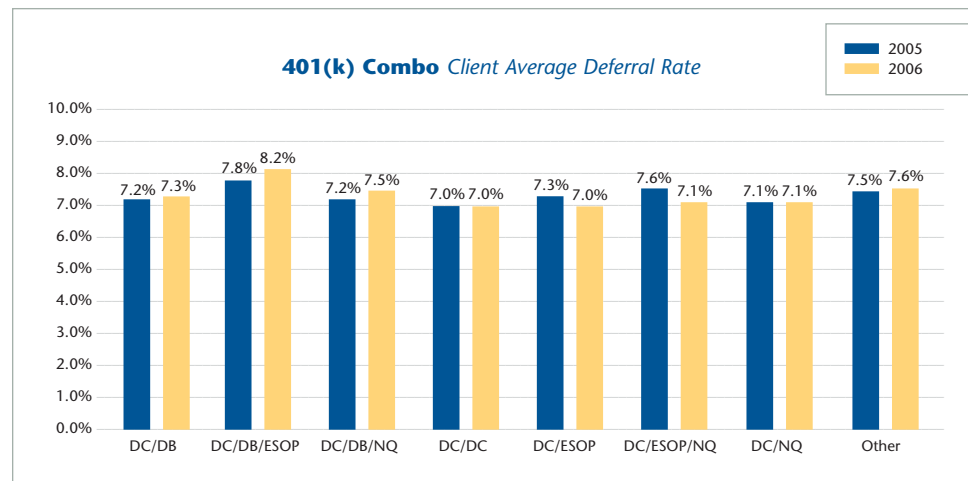
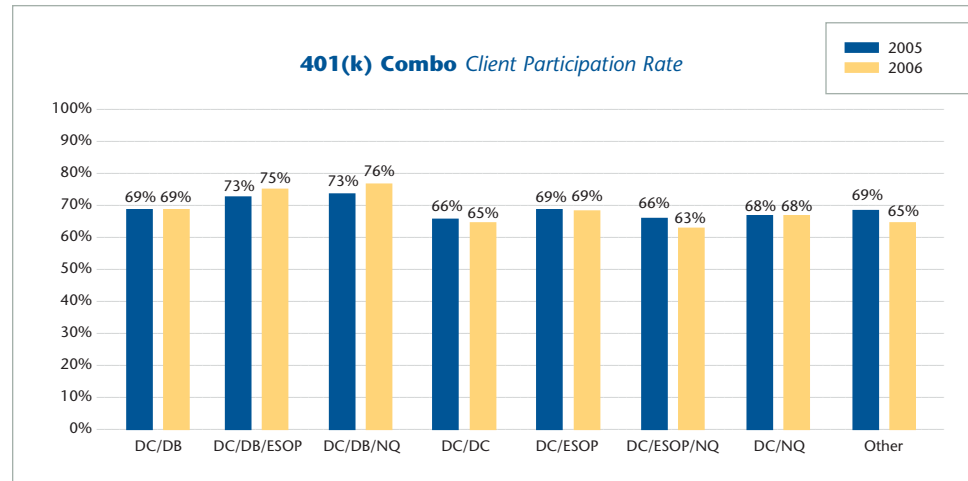
Employers who use an **integrated service approach** can leverage their total benefit program as a recruitment and retention tool, as well as provide employees with:

- An integrated investment program
- A consolidated view of retirement program savings through our total retirement statement
- Simplified retirement planning
- Consolidated education services

Additionally, retirement plans that use a total retirement solution typically had higher participation, larger average salary deferral rates, and bigger average participant account balances.

Fast Fact

In 2006, 58% of our new retirement plan assets were total retirement solutions sales (involving more than one retirement plan).



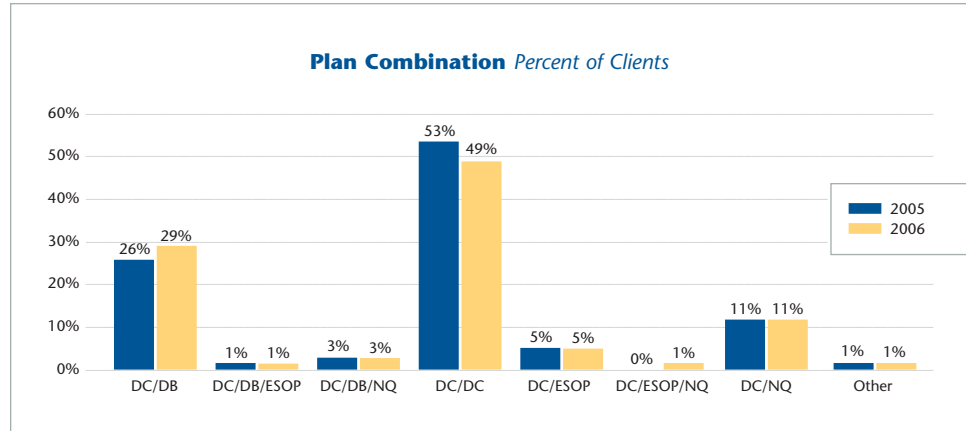
These charts are reflective of the 401(k) and 403(b) plans that are part of a total retirement solutions combination.

Fast Facts

Over 100 retirement plan sponsors had three or more retirement plans with administrative services provided by The Principal®.

2006 sales of new total retirement solutions plans increased 145% and total retirement solutions assets increased by 90%.

The most popular combination of multiple-plan sales in 2006 was defined contribution and nonqualified.



New Sales of Plan Combos*

Plan Combo	% Plans	% Assets
DC/DB	17.6%	12.9%
DC/ESOP	12.9%	19.3%
DB/ESOP	0.0%	0.0%
DC/NQ	30.7%	36.3%
ESOP/NQ	0.0%	0.0%
DB/NQ	1.3%	1.3%
DC/DB/ESOP	0.5%	0.3%
DC/DB/NQ	6.2%	4.2%
DC/ESOP/NQ	0.5%	2.4%
DC/ESOP/DB	0.0%	0.0%
DC/DB/ESOP/NQ	1.6%	10.8%
DC/DC	28.1%	11.7%
DB/DB	0.7%	0.7%
Total	100%	100%

* Percentages in graphs are rounded to the nearest integer percentages in order to increase readability and may not total exactly 100%.

Defined Contribution Plans

Defined Contribution (DC) plans, such as 401(k)s and 403(b)s, continue to be one of the most popular – and fastest-growing – employer-sponsored retirement benefit plans available today.



Plan Popularity Continues

The Principal Financial Group® is helping lead the pack in providing comprehensive retirement plan services to employees, and was named the third largest DC service provider in the 2007 PLANSPONSOR Recordkeeping Survey.

In fact, at the end of 2006, The Principal® provided administrative services to more than 32,500 DC retirement plans with 2.8 million participants that represented more than \$79.5 billion in plan assets under management.

As a retirement solutions innovator, we found that the more successful DC retirement plans provide participants with personalized communication, one-on-one meetings, and automatic or “do-it-for-me” features. Features that can help make a retirement plan more successful include employer matching contributions, easy enrollment features, step-up salary deferral increases, and lifecycle or professionally managed investment options. Retirement plan features like these can help employees who are overwhelmed with making enrollment, deferral and investment decisions, and greatly reduce the tendency for many employees to put off making important decisions that may impact their future.

While seven in 10 employees had started saving for retirement, almost half of them had saved less than \$25,000¹. Providing employees with tools and resources that make saving for retirement easier within a retirement program can only help improve the financial outlook for employees.

¹ 2007 Employee Benefit Research Institute (EBRI) Retirement Confidence Survey

Fast Facts

The majority of DC retirement plans with services by The Principal fell into the 401(k) category.

More than 25,000 of the DC plans were 401(k)s made up of 2.4 million participants that represent more than \$68 billion retirement assets under management.

According to the 2007 EBRI Retirement Confidence Survey, 77% of employees surveyed had access to a retirement savings plan through their employers. Of them, 80% contributed to the plan.

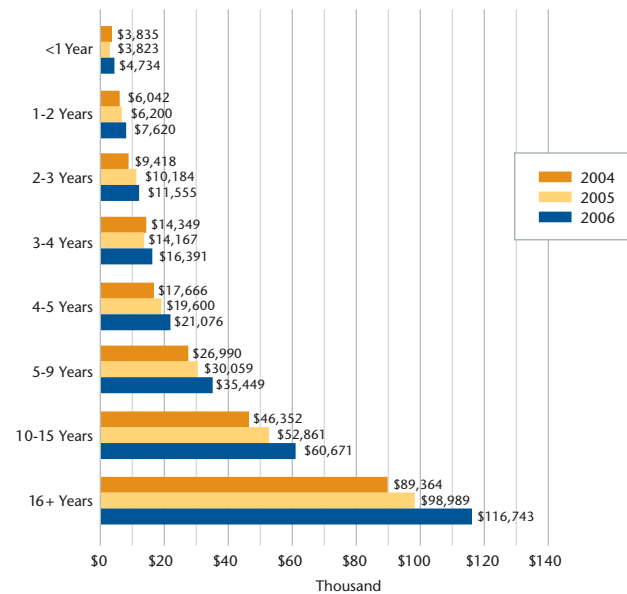
Account Balances

Account balances increased by double digits (12 percent) from 2005 to 2006. Account balances also increased industry-wide. The average account balance for retirement plans with services provided by The Principal as of year-end 2006 was \$36,541.

At The Principal, we found that **average balances increased as tenure increased**, and that companies with fewer than 50 employees had the highest average account balance. Account balances differ significantly by gender. Males continued to have average balances higher than females. However, females' average account balance rose by a slightly larger percent than that of males from 2005.

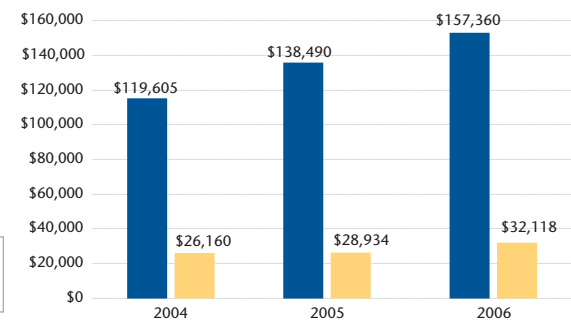
Average account balances experience exponential growth in the later years of employee service.

Average Account Balances by Years of Service

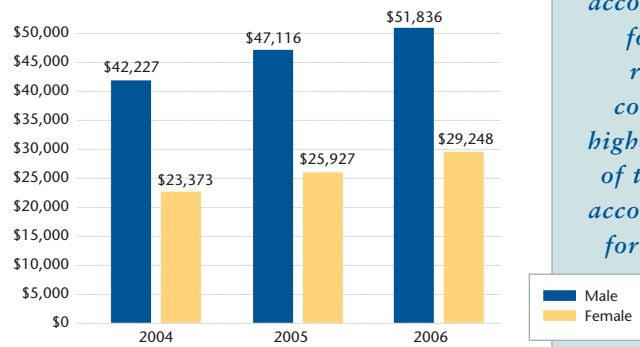


The greater the participant compensation, generally the higher the account balance.

Average Account Balances by Compensation Status

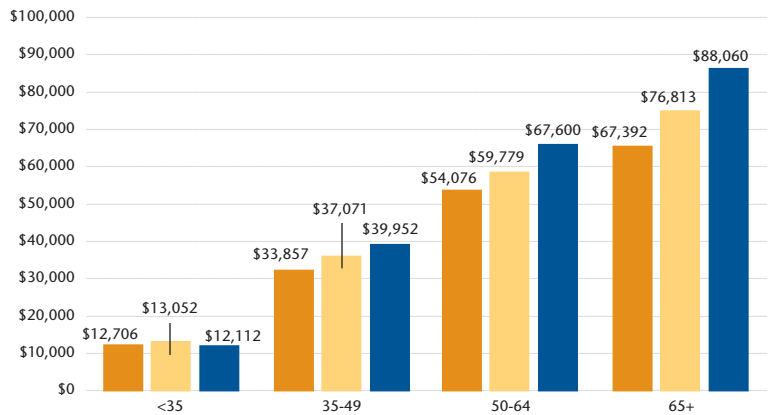


Average Account Balances by Gender



The average account balance for a man remained consistently higher than that of the average account balance for a woman.

Average Account Balances by Participant Age

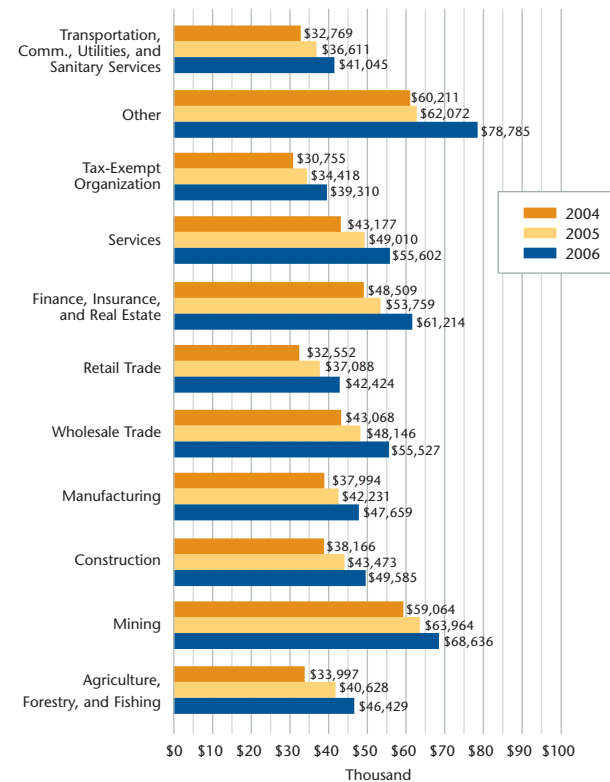


Participants 50 years of age and older had the highest account balances. Younger participants (age 35 or younger) lagged far behind.

Industries

Mining and finance, insurance, and real estate industries had higher average account balances while tax-exempt organizations and transportation, communication, utilities, and sanitary services had the lowest average account balances.

Average Account Balances by Industry Category





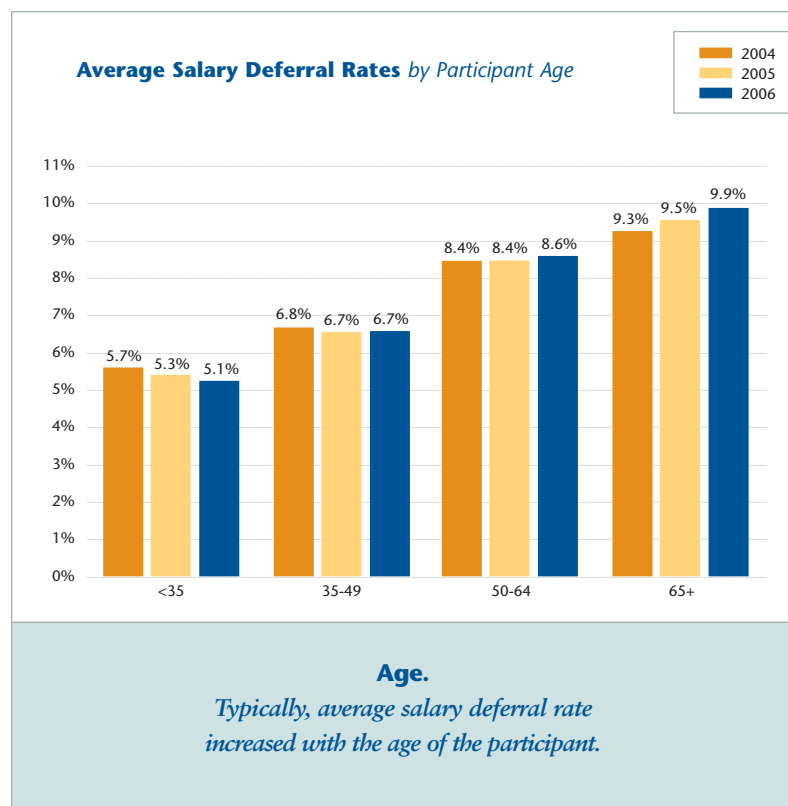
Salary Deferral Rates

The Age, Stage, & Earnings Factors

Naturally, salary deferral rates were higher for employees who are closer to their retirement years, earn more, and had more years of service with their employers. Likewise, certain investment-savvy industries such as finance, insurance, and real estate tended to carry higher average deferral rates.

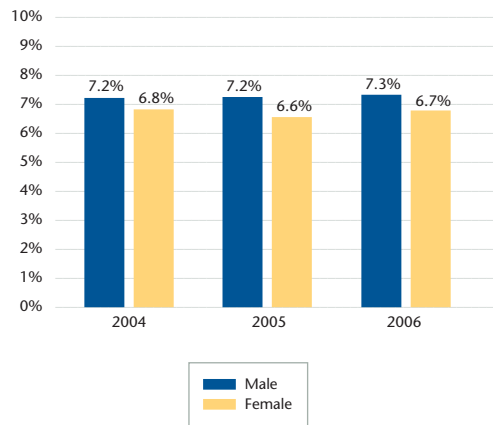
The average pre-tax salary deferral rate remained consistent from 2005 at 7.16 percent.

Average salary deferral rates also increased as age increased, with those aged 50-plus deferring at the highest rates and those under age 35 deferring at the lowest rates. Average deferral rates for participants located in the East and West regions were slightly higher than the deferral rates for participants in the Midwest and South regions. Deferral rates were highest in the finance, insurance, real estate and services industries and lowest in the retail and manufacturing industries.



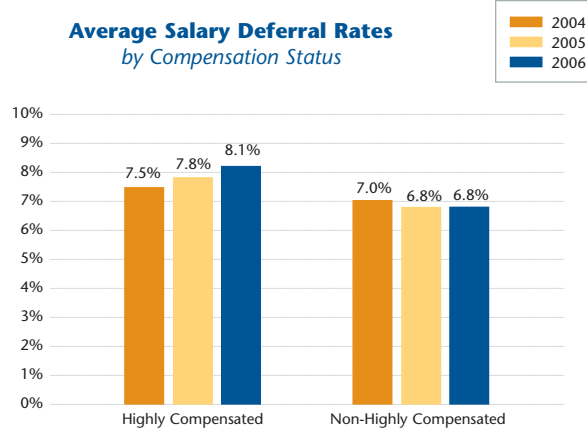
Deferral rates for highly compensated employees continued to increase over the past five years and deferral rates for non-highly compensated employees remained relatively unchanged.

Average Salary Deferral Rates by Gender



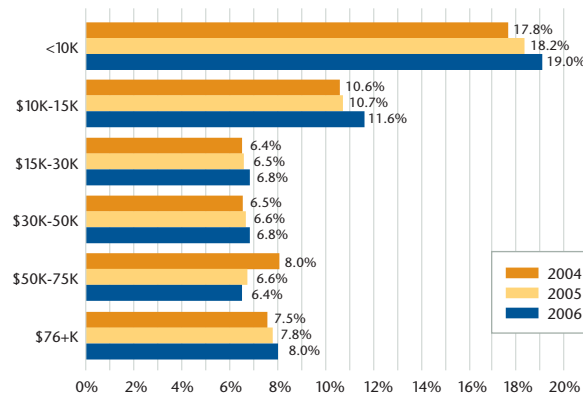
Gender.
Men were more likely to have a higher average salary deferral rate than women.

Average Salary Deferral Rates by Compensation Status



Compensation.
Highly compensated employees continued to have larger average salary deferral rates.

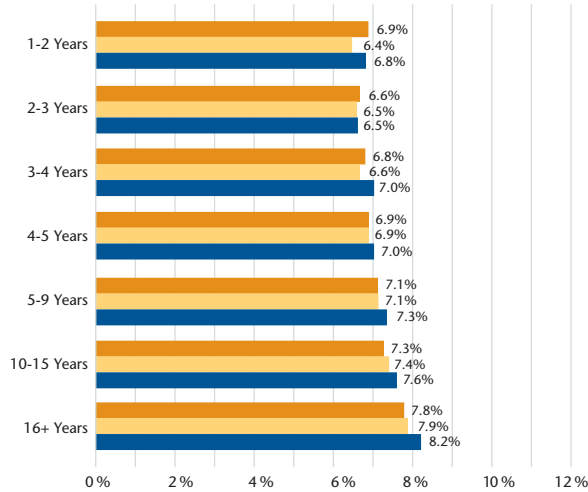
Average Salary Deferral Rates by Compensation



Fast Fact

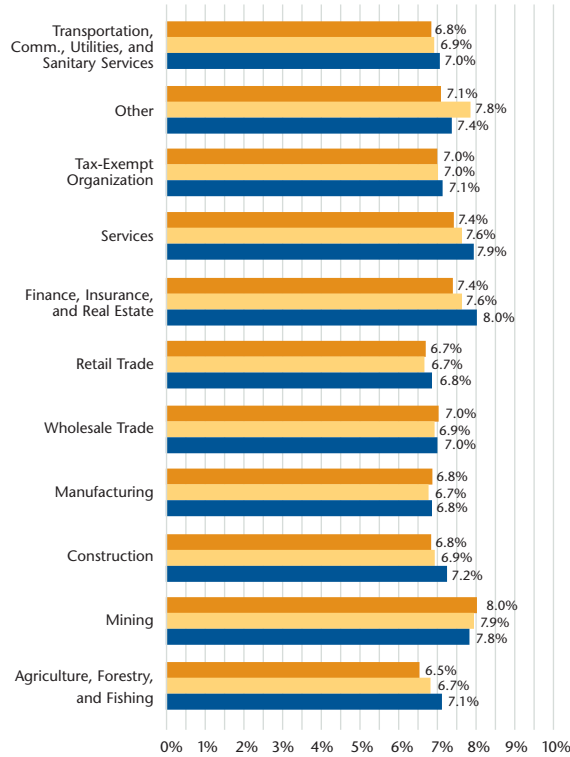
Similar to average account balances, average deferral rates were highest at companies with fewer than 50 people.

Average Salary Deferral Rates by Years of Service



Average salary deferral among employees with 16 or more years of service far exceeded that of relatively new hires.

Average Salary Deferral Rates by Industry Category



Mining led all industries for average deferral; agriculture, forestry, and fishing had the lowest average salary deferral rates.



Participation Rates

Employer Match Makes an Impact

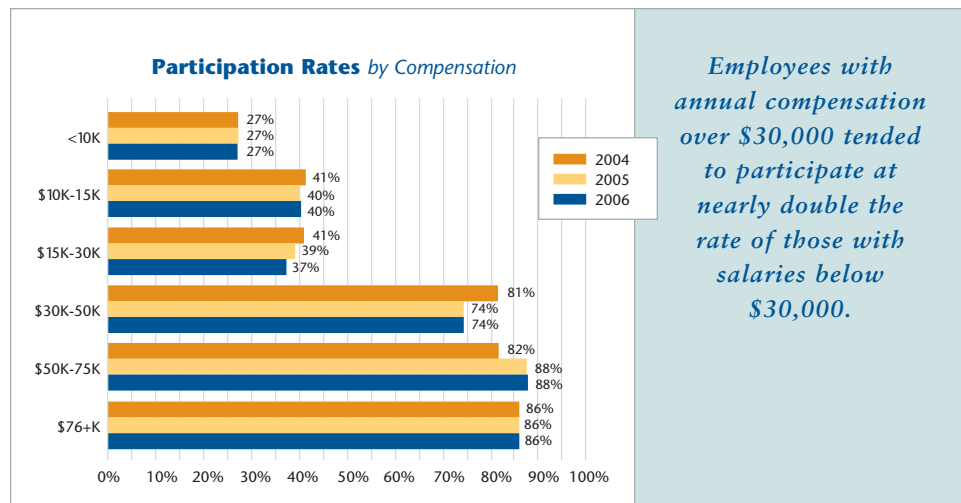
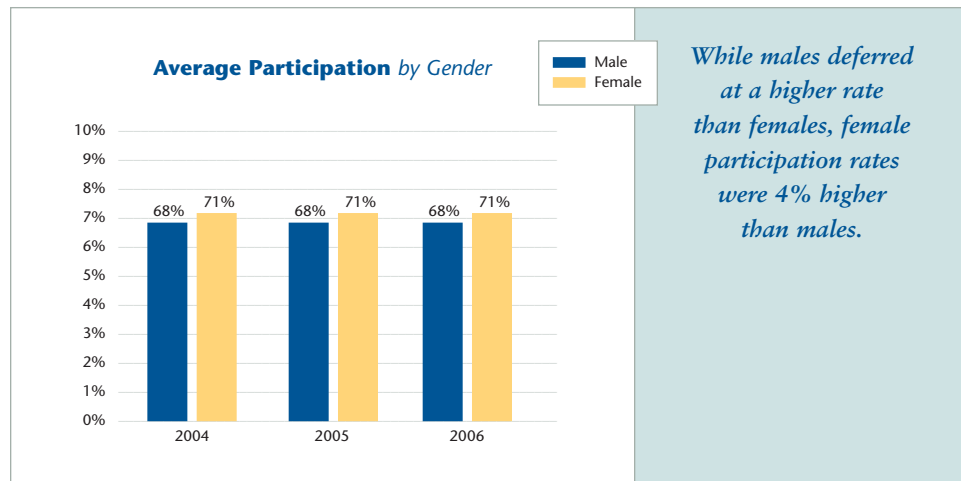
Employee participation rates increased as the average employer match increased. Participation rates were more than 10% higher for plans with an employer matching contribution than those without a match.

Participation rates also increased as years of service increased. Similar to average salary deferral rates and average account balance, participation rates were higher for highly compensated employees.

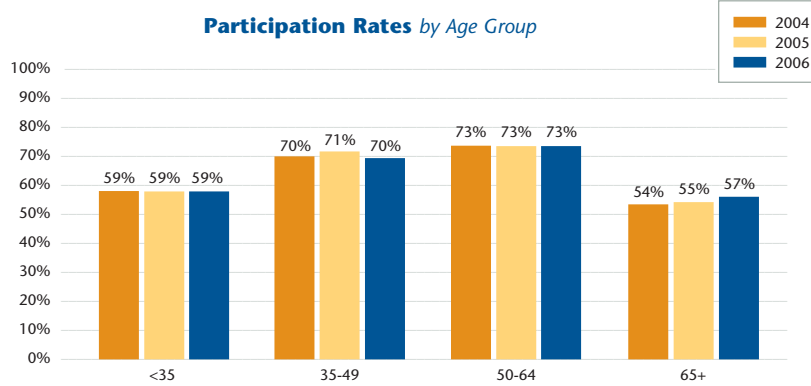
Various industries had higher rates than others. Mining and finance; insurance; and real estate were the industries leading in highest participation rates, while transportation; communication; utilities and sanitary services; retail trade; and construction had the lowest participation rates.

Participation in the retirement plan was the one area where females were higher than males. Female participation rates were 4 percent higher than males. Those aged 50-64 participated at higher rates.

At The Principal and across the industry, smaller organizations had higher participation rates than larger organizations.

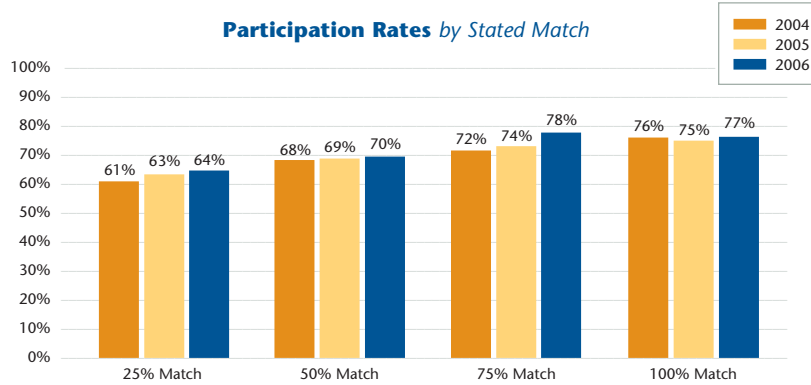


Participation Rates by Age Group



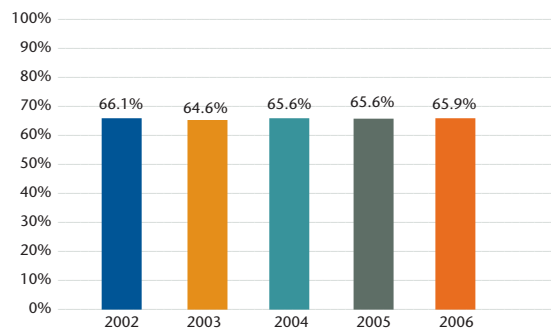
Participation increased with age. Many young employees were likely paying off college debts and credit card balances, rather than signing up for their employer's 401(k) plan.

Participation Rates by Stated Match



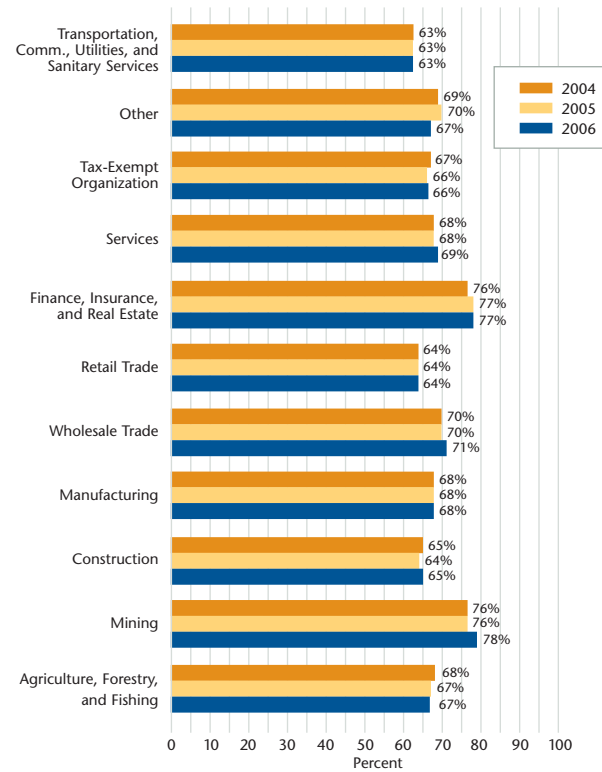
A higher employer match resulted in higher participation levels.

Participation Rates by Year (IIS* Data)



*Individual Investor Services (IIS)

Participation Rates by Industry Category



The financial sector continued to have strong participation. The rate of participation tended to lag in the transportation, communication, retail, and construction industries.

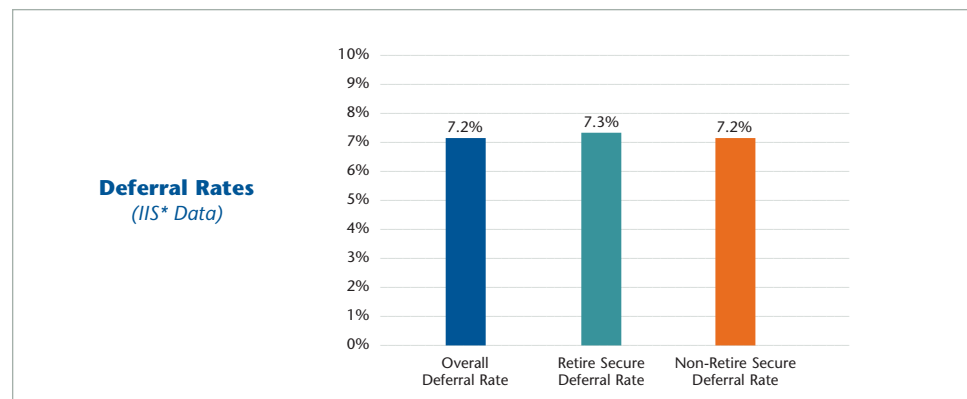
The Power of One-on-One

Fast Fact

As of year-end 2006, 475 retirement plan sponsors offered their participants one-on-one meetings at the worksite.

One-on-one, personalized meetings at the worksite improved savings behavior. The Principal Financial Group has been providing a one-of-its-kind worksite guidance program, called Principal Retire SecureSM, since 2005. While not appropriate for all companies, plans that offered Principal Retire Secure had 11.8 percent higher participation rate than plans not participating in Principal Retire Secure. Deferral rates were also higher for participants plans that offered Principal Retire Secure. Employees meet one-on-one with a salaried benefits specialist on company time, free of charge to the employee and the plan sponsor.

In 2006, each employee participating in the program began receiving an innovative tool to help them with their financial planning. My Principal[®] Edge Milestones is a personalized timeline and strategy based on the specific circumstances of each individual. The Milestone timeline is an easy way to keep employees on track with their retirement goals.



	Plans with Retire Secure	Plans without Retire Secure
Average Deferral Rate	7.3%	7.2%
Average Participation Rate	73.5%	65.8%

*Individual Investor Services (IIS)

“Do-it-for Me” Features Grow in Popularity

Did you know that 34% of workers in America have not saved any money for retirement? Additionally, only four in 10 workers spend five or more hours planning for retirement in a year, while nearly six in 10 spend five or more hours planning for the holidays.¹

And, nearly half of American workers have accumulated less than \$25,000 in savings and investments, including employer-sponsored retirement savings plans.¹

These statistics indicate that when left on their own, there is a large percentage of Americans who will be unprepared to adequately fund their retirement. Many employees want someone to do-it-for-them. In response, more and more companies are adding automatic savings features to their retirement plan(s).

By year-end 2006, the number of clients of The Principal electing one or more of the “do-it-for-me” features nearly tripled. “Do-it-for-me” features include automatic enrollment, lifecycle funds, automatic deferral increases and simplified enrollment forms. At The Principal, we believe these “do-it-for-me” solutions are just one more way we give our clients and their participants an edge for the future.

¹EBRI/Greenwald 2007 Retirement Confidence Survey

Fast Fact

By the end of 2006, more than 30,000 plan sponsors were signed up for one or more of the “do-it-for-me” features from The Principal: Automatic Enrollment, Easy Enrollment, Smart Start, Principal LifeTime Funds, and Principal Step Ahead Retirement OptionSM.





Automatic Enrollment is Catching on

Scores of plan sponsors today are choosing automatic enrollment because it minimizes the anxiety associated with enrollment, as well as the confusing process of choosing among numerous investment options.

In 2006, the number of retirement plans using automatic enrollment doubled: more than 1,100 plans chose to automatically enroll employees. According to the Profit Sharing Council of America, 17.5 percent of all 401(k) plans have automatic enrollment, and the feature is most common within large plans.²

Although plans that automatically enroll participants have lower average account balances than plans that do not automatically enroll participants, it is important to note that the concept is relatively new in the industry. Those participants that were automatically enrolled in recent years have not had a large amount of time to build up the account balance.

Salary Deferral Rates

The standard average salary deferral rate for individuals automatically enrolled in retirement plans was lower than the average deferral rate for self-elected enrollees. The average deferral rate for participants that were automatically enrolled remained unchanged from 2005 at 3.3 percent in plans with services provided by The Principal. The most common deferral percentage used in the industry of 3 percent.² **Participation rates were higher for those plans that automatically enroll participants.**

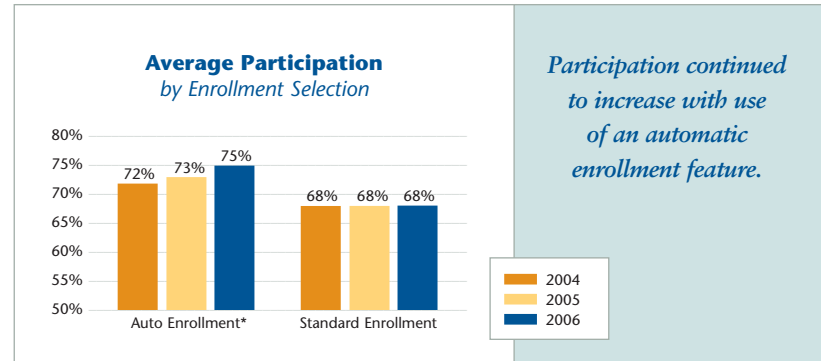
A majority of plans have elected to only automatically enroll **new** employees and are not enrolling **existing** employees that have opted to not participate in the retirement plan.

Offering automatic enrollment can help increase the number of employees participating in a retirement plan. However, participating employees often enroll at lower salary deferral percentages. Therefore, while they are contributing, it is generally not at rates that may be necessary for a more comfortable retirement. Automatic enrollment combined with automatic step up deferral features allows employees to be enrolled in the retirement plan at a more comfortable initial deferral rate. The automatic step-up deferral feature allows participants' deferral rates to slowly increase over time to reach a more reasonable rate.

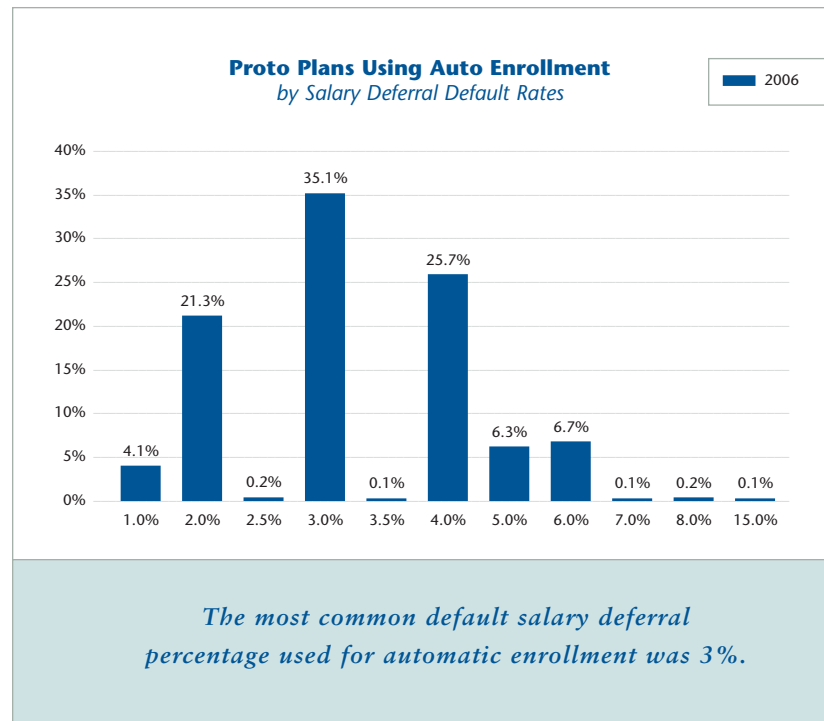
Fast Fact

Lifestyle, lifecycle, and asset allocation style investment options were the most common default investment for automatic enrollment, followed by Stable Value funds.³

²Profit Sharing Council of America 49th Annual Survey
³2006 PLANSPONSOR Magazine DC Survey



*Have adopted auto enrollment for newly hired employees.



Easy Enrollment Helps Simplify the Process

For plan sponsors who are uncomfortable with pure automatic enrollment, Easy Enrollment from The Principal is another “do-it-for-me” approach that helps simplify the process for employees to get started in a plan, increase contributions automatically over time, and select an asset allocation investment option. Available on paper or online, it involves just three steps:

1 Enroll using Smart Start.

This feature allows employees to choose a salary deferral rate pre-set by their employer, which typically coincides with the employer match. The number of plan sponsors using Smart Start from The Principal, an element of Easy Enrollment, **has increased four-fold with nearly 7,000 plan sponsors using this feature.** Although Smart Start allows the plan sponsor to set a pre-selected salary deferral percentage, employees can also choose a different percentage if preferred. However, the pre-set salary deferral rate can help them enroll more confidently.

2 Automatically increase deferrals with Principal Step Ahead Retirement Option.

This feature lets employees select a percentage increase each year for a fixed number of years. **The number of participants utilizing the Step Ahead feature in 2006 nearly tripled from 2005, with nearly 30,000 using the feature. The average annual increase selected was 1.27 percent for an average period of five years.** The combination of automatic enrollment with the Principal Step Ahead Retirement Option feature can help employees become better prepared to more adequately fund their retirement. Employees enroll in the plan at an initial deferral rate and the Step Ahead feature allows participants’ deferral rates to slowly increase over time to help reach retirement savings goals.

3 Allocate contributions to investment options or leave it to the professionals.

Employees who are not comfortable selecting their investment option mix can choose lifecycle/lifestage “do-it-for-me” investment options such as Principal LifeTime portfolios, Russell LifePoints® portfolios, Principal Strategic Asset Management (SAM) Portfolios, or the Principal Managed Accounts ProgramSM.

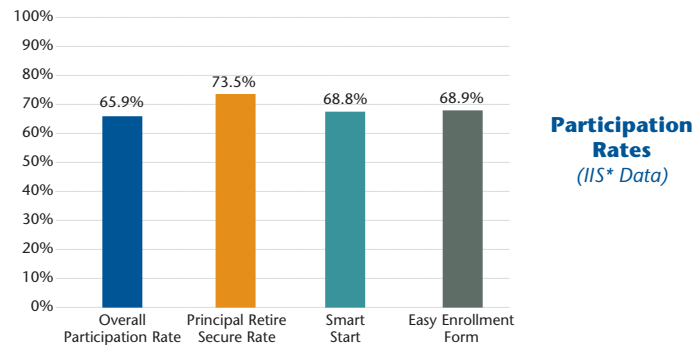


Fast Facts

Participation rates were 4% higher for plans using the Easy Enrollment Form.

By the end of 2006, nearly 11,000 plans were using the Easy Enrollment Form from The Principal, which was a significant increase from just over 3,000 in 2005.

Participation rates were higher with one-on-one meetings and “do-it-for-me” features.



*Individual Investor Services (IIS)

*Investment advice provided through the Principal Managed Account Program is provided by Ibbotson Associates. Access to the advice and securities and advisory products are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC. Princor and Principal Life are members of the Principal Financial Group, Des Moines, Iowa, 50392. Insurance products and plan administrative services are provided by Principal Life Insurance Company.

Lifecycle/Lifestyle Investment Options & Managed Accounts

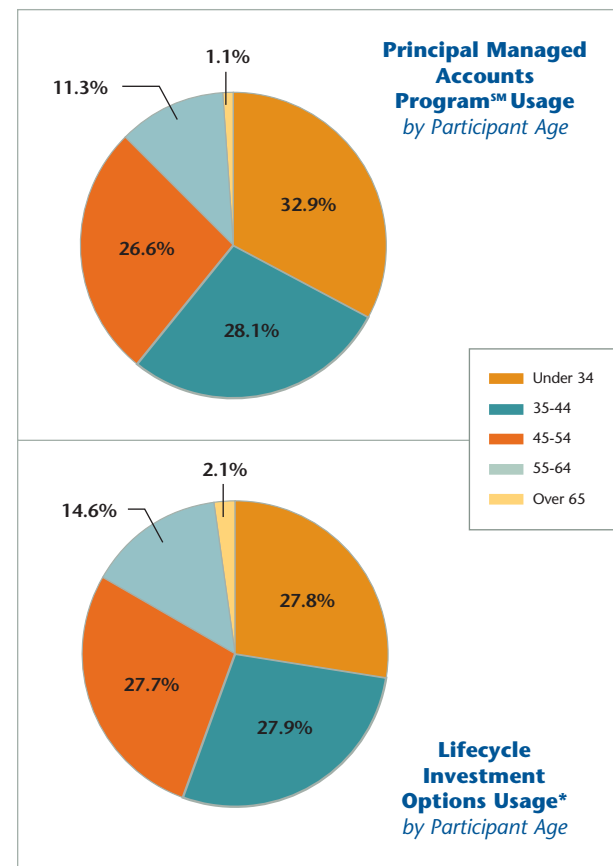
Use of lifecycle/lifestyle investment options continued to grow dramatically in 2006, with approximately 80% of plans sponsors offering them in their investment line-up – this number is more than double from 2004.

Because employees want help in choosing investment options, the popularity of lifecycle and lifestyle investment options continues to swell. At The Principal, just under 4,000 plan sponsors added lifecycle/lifestyle investment options in their retirement plan in 2006.

By the end of 2006 approximately 80 percent of our plan sponsors offered a lifecycle/lifestyle investment option in their investment line-up, which more than doubled from 2004.

An increasing number of plan sponsors had designated lifecycle/lifestyle investments as their default investment option for the plan (nearly 6.3 percent in 2006 vs. 2.9 percent in 2005). Nearly \$9 billion were invested in these investment options by the end of 2006, an increase of 36 percent from 2005.

More than 875,000 participants directed their retirement funds to the Principal LifeTime or Russell LifePoints® investment options by the end of 2006, which is approximately a quarter million more participants than in 2005. In addition, more than 265,000 of the participants invested in the Principal LifeTime or Russell LifePoints® investment options had truly embraced the intent of the investment with 100 percent of the account balance directed to the investment.



* Percentages in graphs are rounded to the nearest integer percentages in order to increase readability and may not total exactly 100%.

The Professional Difference

Forty-one percent of employed adults in the United States prefer to have someone manage investments for them.¹ That is why the Principal Managed Account ProgramSM was introduced to plan sponsors in mid-2005.

By the end of 2006, use of the Principal Managed Account Program grew four times. Roughly one in four larger companies offer, or plan to offer, managed accounts by the end of 2007, according to a study conducted by Hewitt Associates.²

Fast Facts

The average age of participants selecting the Principal Managed Account Program was 43.

Participants in their 30s and 40s and those with salaries below \$50,000 were more likely to select the Principal Managed Account Program.

More plan sponsors in the Midwest were offering the Principal Managed Account Program as an option than in other regions.

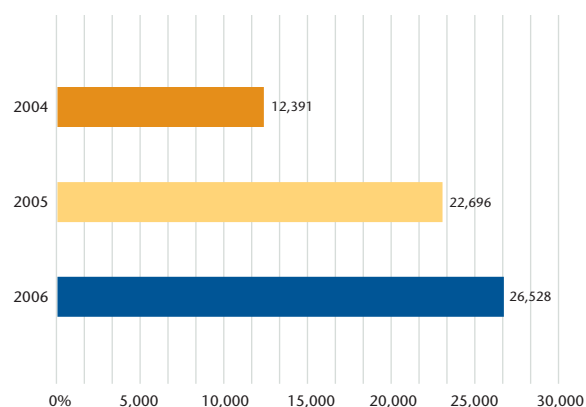
¹ 2007 Second Quarter Principal Financial Group Well-Being Index

² 2007 Hewitt Associates Survey: Trend in Retirement:

<http://www.hewittassociates.com/Intl/NA/en->

[US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=3678](http://www.hewittassociates.com/Intl/NA/en-US/AboutHewitt/Newsroom/PressReleaseDetail.aspx?cid=3678)

Plans Offering Lifecycle/Lifestyle Investment Options



Lifecycle and Managed Accounts Options

To meet the increasing demand among employees, retirement plan sponsors with services provided by The Principal have four “do-it-for-me” options that can help simplify investing for their participants:

- **Principal LifeTime portfolios** – participant selected based on retirement age.
- **Principal Strategic Asset Management (SAM) Portfolios** – participant selected based on risk tolerance.
- **Russell LifePoints® portfolios** – participant selected based on risk tolerance.
- **Principal Managed Account ProgramSM** – participant selected program that provides professional third-party investment advice.

Investment Options

On average, approximately 18 investment options were used in plans serviced by The Principal, a slight increase from 2002. On average, participants allocated their new contributions to four different investment options.

The Categories

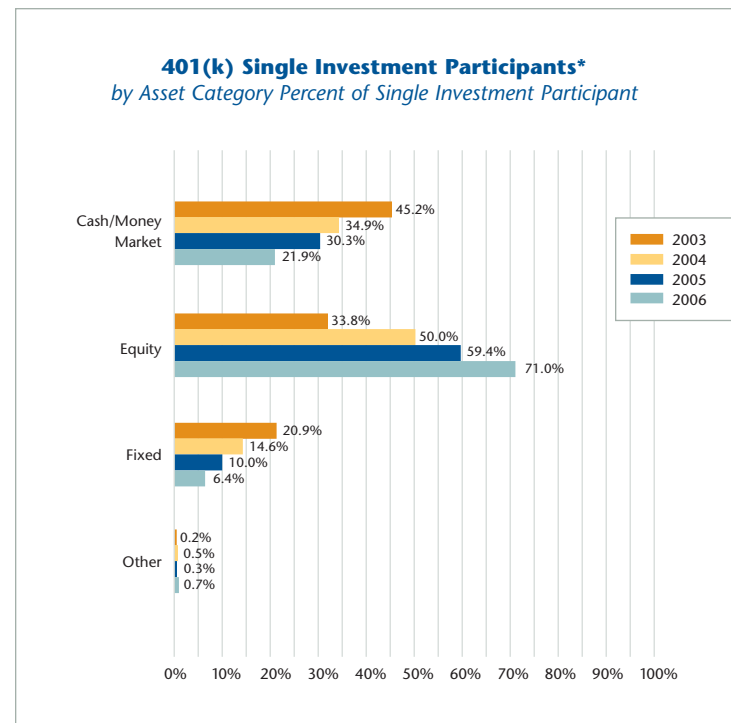
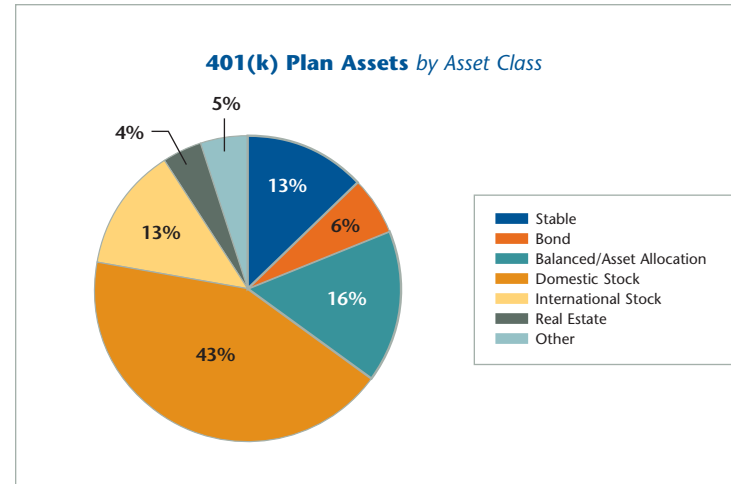
The largest percentages of retirement plan assets were directed to domestic stock (43 percent). This is similar to the industry average where 49 percent of participant account balances were allocated to equity investment options.¹ The next most popular category was balanced/asset allocation investment options (which includes lifecycle funds) with 16 percent of plan assets. Real estate trailed with the least amount of assets at 4 percent.

Of the plans that offered company stock as an investment option, approximately 27 percent of the plan assets were directed to this option.

The Age Aspect

Highly compensated participants tended to invest more aggressively than non-highly compensated participants. As expected, older participants invested more conservatively than younger participants. Those aged 65-plus had 22 percent of retirement funds directed to stable value investments, while those under age 35 had 9 percent in stable value.

¹ 2006 Employee Benefit Research Institute/Investment Company Institute database

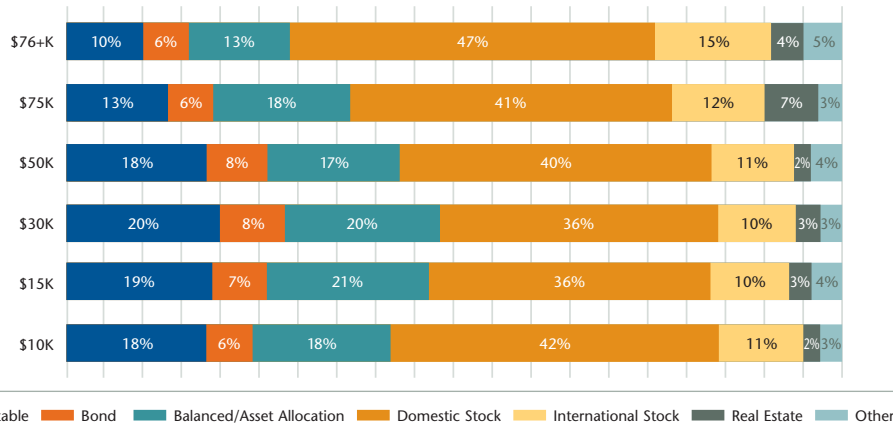


* Percentages in graphs are rounded to the nearest integer percentages in order to increase readability and may not total exactly 100%.

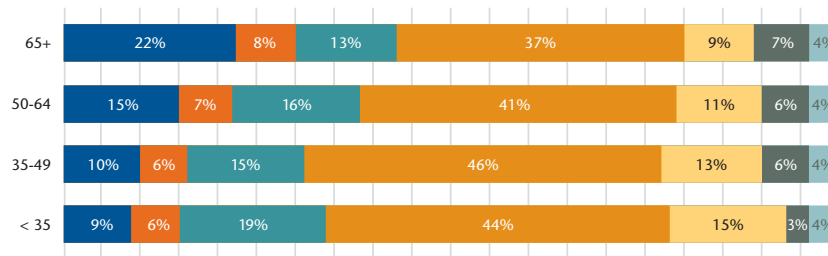
Fast Fact

Over 70% of participants with a single investment had retirement funds directed to equity investment options, followed by just under 22% in money market investments and 6% in fixed investments.

2006 Investment Selection by Compensation

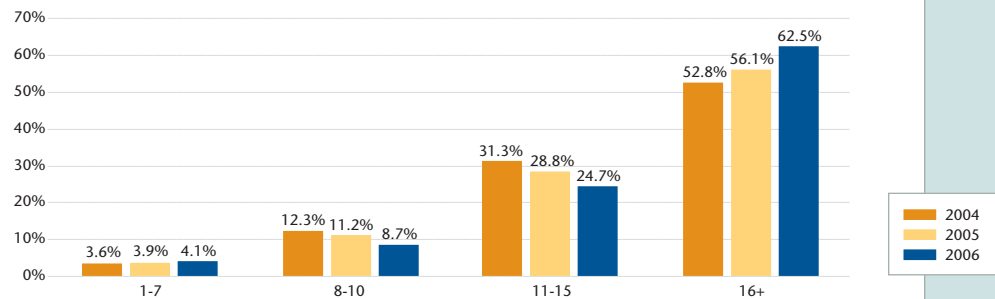


2006 Investment Selection by Participant Age



Highly compensated employees had a greater percentage of assets invested in domestic and international stock investment options. Non highly compensated employees invested more in stable investment options and balanced/asset allocation investment options.

401(k) Plans by Number of Investment Options Used



On average, nearly 18 investment options were used in plans with The Principal.



Loan Provisions – the Facts

Sixty-three percent of DC retirement plans with services provided by The Principal included a loan provision.

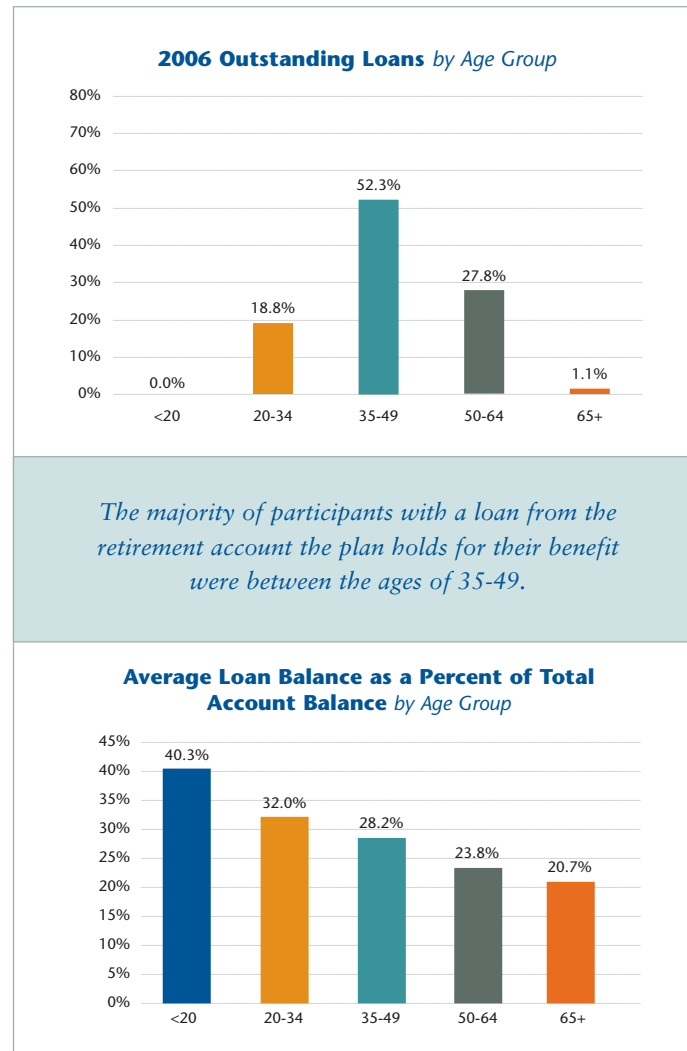
Allowing loan provisions in retirement plans did not have an impact on overall participation rates.

Of the retirement plans with services provided by The Principal that allowed plan loans, the majority only allowed one outstanding loan at a time; only 15 percent allowed more than one loan.

Of those plans with loan provisions, the average number of loans outstanding within a plan was 17 loans. There was an average of 81 participants in plans that had outstanding loans.

The average loan balance increased from \$5,011 in 2003 to \$7,013 in 2006.

According to the 2006 Employee Benefit Research Institute database, only 18 percent of participants eligible for loans had 401(k) plan loans outstanding at the end of 2006. Similar to The Principal, the average outstanding loan balance at year-end 2006 was \$7,292.¹



¹ 2006 Employee Benefit Research Institute/Investment Company Institute database

Rollovers & Cash Withdrawals – Most Stayed Invested

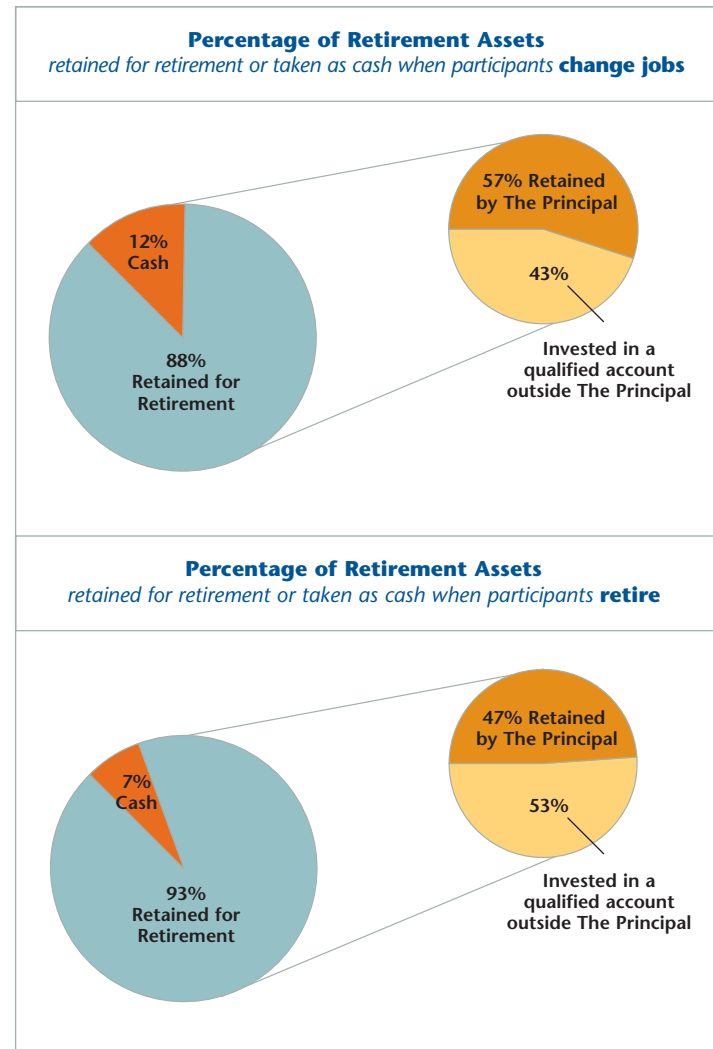
Nearly 90 percent of the retirement funds for participants that changed jobs in 2006 remained invested in an account for retirement, and just over 10 percent elected a cash withdrawal of the funds. Even a larger percentage of retirees' assets remained invested in a retirement account; only 7 percent of assets were taken as a cash withdrawal.

Of the retirement funds available for rollover or distribution due to a job change or retirement in 2006, more than half — 54 percent¹ — remained invested with The Principal. This figure was higher than the industry average of 46.5 percent.²

Ninety percent of the 401(k) plans with recordkeeping services provided by The Principal allowed annuities as an option at the time of a distributable event. This is significantly higher than the industry average where 16.5 percent of pre-retirees and 22.7 percent of retirees were offered annuities as an option at distribution.³

Fast Fact

Younger participants, those 34 or under, elected to receive a cash distribution option more often when changing jobs than any other age group, with 20% taking the cash option.



Matching Contributions & Plan Design

Important to Employees, Important to the Bottom Line

In a recent study, 42 percent of employees stated if the dollar amounts were the same, they would prefer to receive a higher employer match in the employer's 401(k) plan than a wage increase.⁴ That's a significant amount of employees who are looking to their retirement years instead of a little extra at paycheck time.

The overall average employer match was 39 cents per dollar deferred in 2006. Tax-exempt organizations had the highest match per dollar at 58 cents, followed by the mining industry. With 34 cents per dollar match, retail trade had the lowest match.

The most common stated match formula was 50% up to 6% of pay for retirement plans with services provided by The Principal. This was also true of the industry.³ Retail trades and healthcare industries averaged slightly less at 50% up to 4% of pay.

Match Contribution Per Dollar of Deferral

Industry	2006	2004	2002
Agricultural, Forestry, Fishing	\$0.47	\$0.44	\$0.45
Construction	\$0.37	\$0.36	\$0.35
Finance, Insurance, Real Estate	\$0.45	\$0.46	\$0.44
Manufacturing	\$0.37	\$0.36	\$0.35
Mining	\$0.49	\$0.47	\$0.47
Retail Trade	\$0.34	\$0.33	\$0.34
Services	\$0.42	\$0.39	\$0.36
Tax-exempt	\$0.58	\$0.58	\$0.61
Technology	\$0.41	\$0.34	\$0.35
Transportation & Communication	\$0.38	\$0.37	\$0.37
Wholesale Trade	\$0.37	\$0.37	\$0.36

Business Type	Most Common Stated Match Formula
Agriculture, Forestry, Fishing, Hunting	50% up to 6% of pay
Mining	50% up to 6% of pay
Utilities	50% up to 6% of pay
Construction	50% up to 6% of pay
Manufacturing	50% up to 6% of pay
Wholesale Trade	50% up to 6% of pay
Retail Trade	50% up to 4% of pay
Transportation, Warehousing	50% up to 6% of pay
Publishing, Broadcasting, Data Processing	50% up to 6% of pay
Finance, Insurance	50% up to 6% of pay
Real Estate, Rental Leasing	50% up to 6% of pay
Professional, Scientific Services	50% up to 6% of pay
Other Services	50% up to 6% of pay
Technology	50% up to 6% of pay
Healthcare	50% up to 4% of pay

¹The Principal Financial Group

²Sterling 2006 Asset Rollover Retention Study, as of January 2006

³Profit Sharing Council of America 49th Annual Survey

⁴2007 First Quarter Principal Financial Group Well-Being Index

Plan Design: Eligibility & Vesting

Approximately 15 percent of plans with services provided by The Principal had immediate vesting, which was below the industry average of 39 percent. Among plans that did not have immediate vesting, a five-year graded schedule was the most common in the industry.¹ **The most common vesting schedule among plans with services provided by The Principal was a six-year graded schedule.**

Safe Harbor Solutions

In 2006, 19 percent of the 401(k) plans with recordkeeping services from The Principal were Safe Harbor plans. This increased from 13 percent in 2004. This plan design allows plan sponsors to automatically satisfy non-discrimination testing on salary deferral and matching contributions if the plans meet the Safe Harbor matching formula. Safe Harbor plans had deferral rates higher than non-Safe Harbor plans. In addition, participation rates in Safe Harbor plans were 14 percent higher than in non-Safe Harbor plans.

Individual 401(k) Plans

Designed for owner-only businesses, including highly compensated professionals like doctors, attorneys, and real estate agents, the Individual 401(k) provides the same tax savings and higher contributions compared to a stand-alone solo 401(k) plan. It also offers the extra advantages of a traditional plan such as unique investment selection and a review program.

The Principal began offering Individual 401(k) arrangements at the end of 2004, and by the end of 2006 we had just over 500 Individual 401(k) plans.

Eligibility Requirements

Eligibility Category	The Principal Overall	Industry Benchmark ¹
Immediate	12%	48.5%
3 months	10%	16.6%
6 months	16%	16.6%
1 year	53%	17.8%
Other	9%	6.2%

The most common eligibility requirement was one year among plans with services provided by The Principal.

Vesting

Eligibility Category	The Principal Overall	Industry Benchmark ²
Immediate	14%	39.5%
Cliff	9%	11.8%
Graded	76%	46.1%
Other	1%	3.4%

Fast Fact

A Profit Sharing/401(k) Council of America Roth 401(k) Survey 2007 revealed that 61% of employers who do not offer a Roth feature in their 401(k) plan were considering or planning to add this feature.¹

Roth 401(k) Elective Deferrals

Starting on January 1, 2006, employers were authorized to begin offering Roth 401(k) elective deferrals as an additional feature to their plan participants with the option of electing to have part — or all — of their elective deferral contributions treated as after-tax contributions. That means that those contributions made in after-tax dollars have no immediate tax savings, but contributions and eligible earnings can be withdrawn tax-free in retirement if certain requirements are met. Distribution of Roth 401(k) elective deferrals can only be made after separation from service, death, disability, age 59½, financial hardship, or termination of the plan.

Companies were hesitant to begin offering the Roth 401(k) features because initially the feature was not going to allow new contributions after December 31, 2010; however, Congress made the plan feature permanent in the Internal Revenue Code with the passage of the Pension Protection Act of 2006.

According to the Profit Sharing Council of America, 22.4 percent of employers added a Roth 401(k) feature to their 401(k) plans and 7.9 percent of eligible employees made Roth 401(k) contributions in 2006.³ At the end of 2006, less than 10 percent of plan sponsors with services provided by The Principal allowed Roth 401(k) contributions and 6.5 percent of participants with access to a Roth 401(k) had elected Roth 401(k) salary deferrals.

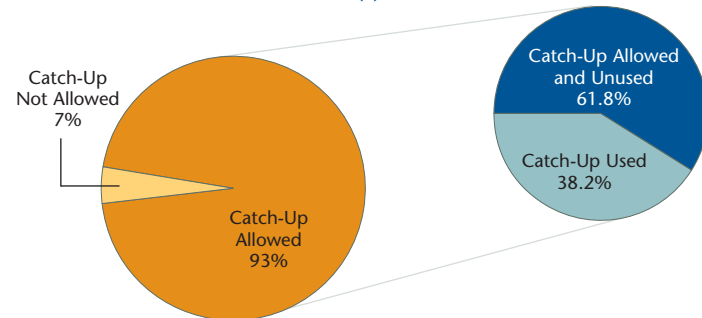
Plans that allowed Roth 401(k) contributions **had higher salary deferral rates, participation rates, and average account balances.** Participation rates for plans allowing Roth 401(k) contributions were 10.5 percent higher than plans that did not allow Roth 401(k) contributions. Average account balances were 25 percent higher for plans allowing Roth 401(k) contributions.

¹ Profit Sharing/501(k) Council of America Roth 401(k) Survey 2007

² Profit Sharing Council of America 50th Annual Survey

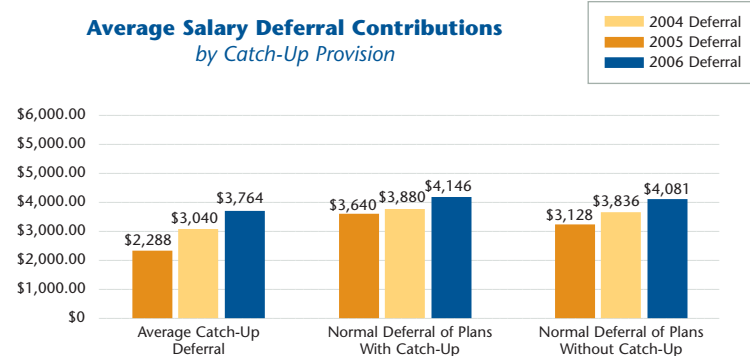
³ Profit Sharing/401(k) Council of America Survey

Overview of 2006 Catch-Up Contributions for 401(k) Plans



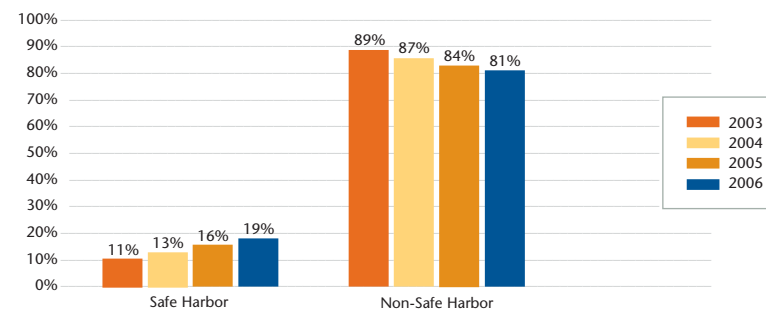
More than 93% of retirement plans with The Principal allowed catch-up contributions. More than 38% of these plans had participants who used this provision.

Average Salary Deferral Contributions by Catch-Up Provision



The average catch-up contribution was \$3,764.

Plan Design as a Percent of Total 401(k) Plans





Participant Services That Matter

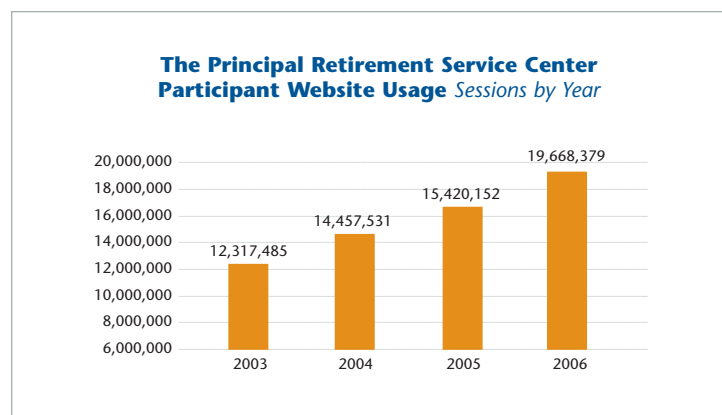
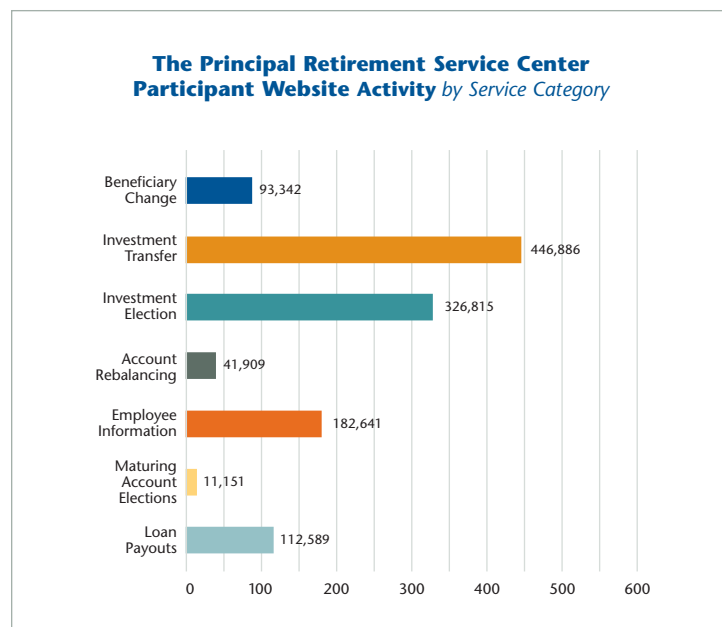
Top Tools and Services

When it comes to needing retirement plan information, not all participants are alike. Some want a more technological approach, while others prefer one-on-one service. A more successful retirement program also requires flexibility, education, and attention, addressing employee needs from pre-enrollment through retirement.

- **Telephone Representatives** – According to a 2006 Retirement Plan Participant Study conducted by Boston Research Group on the retirement industry, 44 percent of participants called a telephone representative to inquire about their retirement plan features. The percentage of Principal Financial Group participants that called and spoke to a representative was equal to that of the industry (approximately 44 percent).

- **Website** – Overall, a website was the most common communication channel used, by more than 50 percent of retirement plans participants.¹ **Likewise, plan participants with services provided by The Principal continued to utilize The Principal Retirement Service Center® as their primary online tool to monitor and manage retirement accounts.** Website usage increased significantly from prior years with just under 20 million sessions in 2006. This was an increase of 25 percent from 2004 and more than a 60 percent increase from 2000.

Beyond checking account balances, participants used the website most frequently to make investment transfers, change their asset allocation, and update their information. **The website was the preferred method for obtaining information and making changes for more than 60 percent of participants.¹** In addition to the transactional aspects of The Principal Retirement Service Center, participants were also using the educational components available online – for example, there were nearly 75,000 visits to our Retirement Planning Calculator.



Client Contact Center

When participants are looking for assistance beyond the Internet or simply prefer to speak to an individual, the Principal Financial Group has retirement specialists available to assist them.

The more common reasons participants call to speak with a retirement specialist include: options for withdrawing retirement funds (in-service withdrawals, and distribution options for retirees and/or job changers), loan provisions, applications and procedures, verification of tax forms (1099-R), and statement clarifications (transfers, vesting, investment return).

Other common tactical issues the retirement specialists address include assisting with log in access to the website, verification of receipt of paperwork, notification of separation of service, and status of transactions (loans, withdrawals, distributions). Of the participants who called a retirement specialist, the majority only called once a year, with very few calling on a monthly or weekly basis.¹

¹ 2006 Boston Research Group DCP Participant Study

Fast Fact

The communication channel least used by retirement plan participants is an automated telephone service.¹



Defined Benefit Plans

Defined Benefit (DB) plans were still one of the most efficient ways to provide an anticipated retirement benefit for employees for the dollar contributed. They remained an important part of a total retirement program and were one of the most valued and appreciated¹ benefits.

¹ Facts from EBRI June 2007; <http://www.ebri.org/pdf/publications/facts/0607fact.pdf>

Defined Benefit Plans Remain Highly Valued

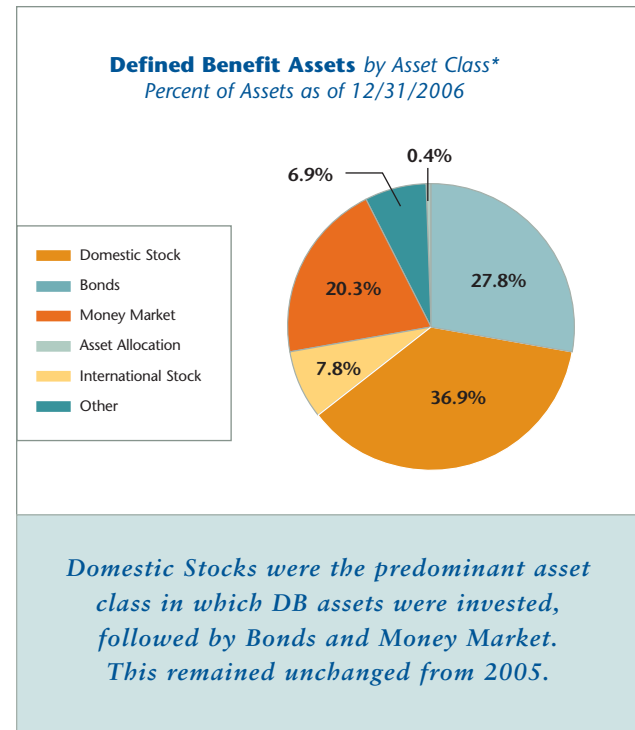
Although regulations have been slow in coming, passage of the landmark Pension Protection Act of 2006 (PPA) made it an exciting time for DB plan sponsors, largely because one of the main goals of the legislation was simplifying DB funding rules to allow for funding flexibility.

Today many DB plan sponsors find themselves reviewing their plans in light of PPA and upcoming FASB changes. While some plan sponsors will undoubtedly freeze or terminate their DB plans, many other plan sponsors have chosen to wait for clarification from the IRS and DOL before taking any action. Another issue is that Pension Benefit Guaranty Corporation (PBGC) solvency concerns have not been eliminated. As some very large employers drift towards Chapter 11, further large liabilities may be transferred to the PBGC.

Forecast: Alternatives are Re-Emerging

New DB plan formation is still generally limited to professional corporations, self-employed individuals, and select not-for-profit organizations. However, **plan sponsors are revisiting tried-and-tested alternatives. Thanks to the legitimization of hybrid plans through PPA, options such as Cash Balance designs are once again becoming viable options** to help balance the risk of maintaining DB benefits, while at the same time providing retirement income security for employees.

While employers continue to look for answers to their lingering questions about their retirement programs, they may increasingly be on the lookout to coordinate all their retirement plan needs with a single-source service provider.



* Percentages in graphs are rounded to the nearest integer percentages in order to increase readability and may not total exactly 100%.

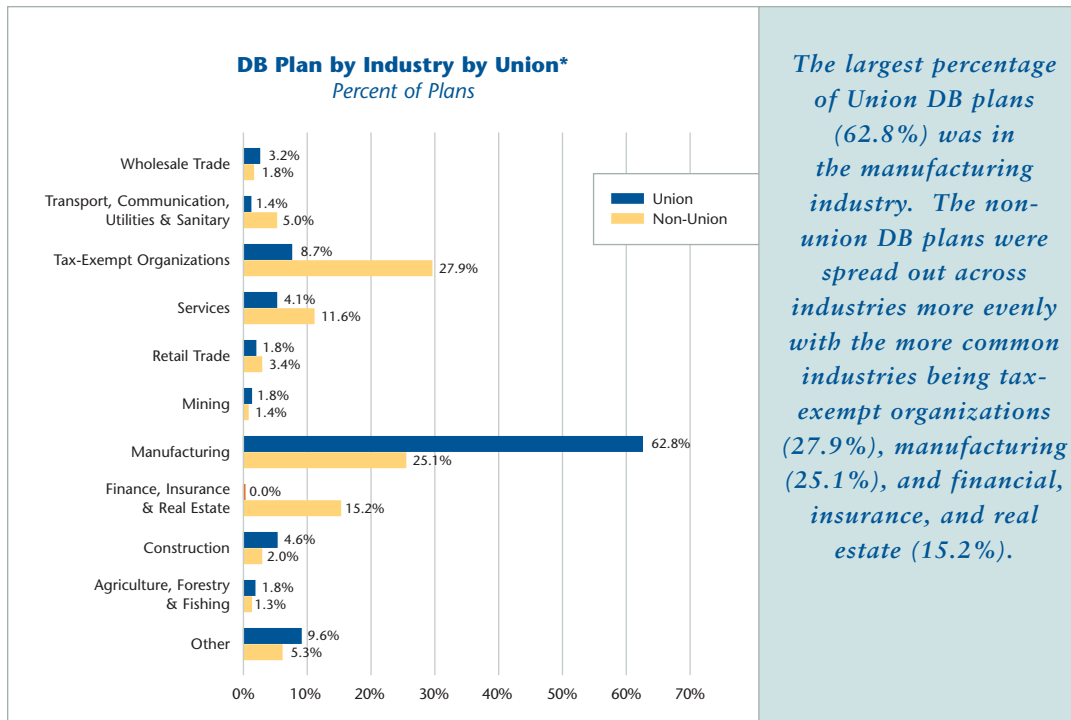
Fast Fact

During 2006, DB plans totaling over \$760 million in plan assets transferred their retirement plans to the Principal Financial Group for administrative services.

Fast Facts

Even though the number of DB plans in the marketplace declined, the assets held in DB plans still represented 35% of all retirement assets.¹

The Principal worked with clients to freeze a total of 56 DB plans in 2006, representing \$265 million in assets.



The largest percentage of Union DB plans (62.8%) was in the manufacturing industry. The non-union DB plans were spread out across industries more evenly with the more common industries being tax-exempt organizations (27.9%), manufacturing (25.1%), and financial, insurance, and real estate (15.2%).

* Percentages in graphs are rounded to the nearest integer percentages in order to increase readability and may not total exactly 100%.

In a study conducted by Hewitt Associates², the top reasons that DB plan sponsors cited for not making changes to their plan were that:

- 1 Employees valued and appreciated the DB plan.*
- 2 The DB plan was an efficient vehicle for delivering retirement benefits.*



Promoting the DB plan to employees

In addition to the total retirement statement participants received, many organizations also utilized these resources to help communicate the value of the DB plan to employees (according to Hewitt Associates³):

Regular written communications

Online communications or website, and

Employee education meetings.

Fast Fact

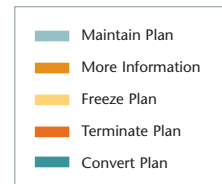
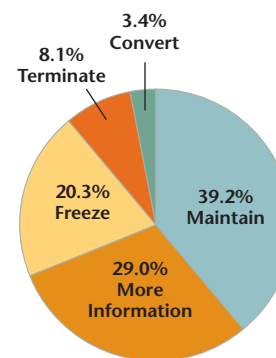
DB plan sponsors cited cost (volatility and amount) as the top reasons for closing participation, freezing accruals, or terminating plans.⁴

¹ SPARK 2007 Marketplace Update

² PLANSPONSOR 2006 DB Survey - Too Little, Too Late

³ Hewitt: Hot Topics in Retirement 2006

⁴ 2007 Principal Financial Group Survey



In an online study regarding the impact of PPA (conducted by the Principal Financial Group with a sample of our retirement plan sponsors), 39% of DB plan sponsors indicated they will maintain their plan, 29% indicated they needed more information before taking any actions, 20% were likely to freeze their plan, while 8% will terminate their plan, and 3% planned to convert their DB plan into a cash balance plan.⁴

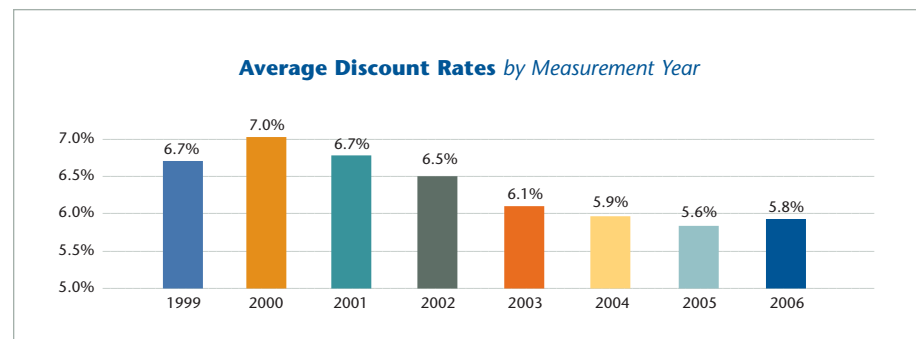
Accounting for Defined Benefit Plans

A DB plan's funded status is generally a comparison of plan assets and liabilities. Liabilities for accounting purposes 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 discounts drop, plan liabilities rise.

The good news for DB plan sponsors is that average funding levels improved. Among DB plans with plan services provided by The Principal, the 2006 average funded status was 89 percent – an increase from 83 percent in 2005.

While the 2006 funded status returned to the 2002 level, it had not yet reached the 96 percent funded peak experienced in 2000. As the funded status percentages improved, so did the percentage of plans that were at or above 100 percent funded. **In 2006, 22 percent of plans with services provided by The Principal were at or above 100 percent funding, a significant improvement from 2005.**

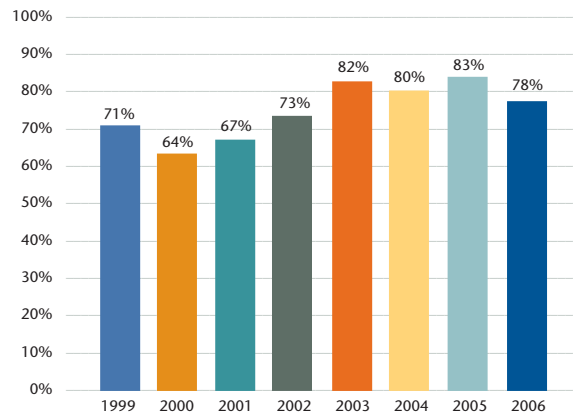
The average discount rate increased from its lowest level in 2005 of 5.6 percent to 5.8 percent, but still remains far below its highest level in 2000 of 7.0 percent.



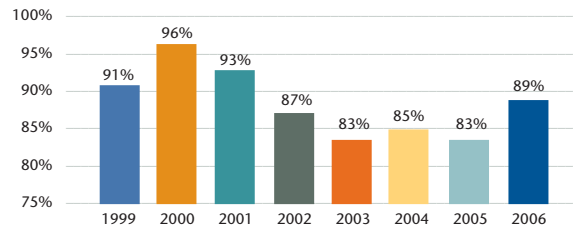
Fast Fact

In 2006, the Principal Financial Group made DB retirement payments in excess of \$1 billion to just over 210,000 retirees.

Less Than 100% Funded Status
Percent of Plans

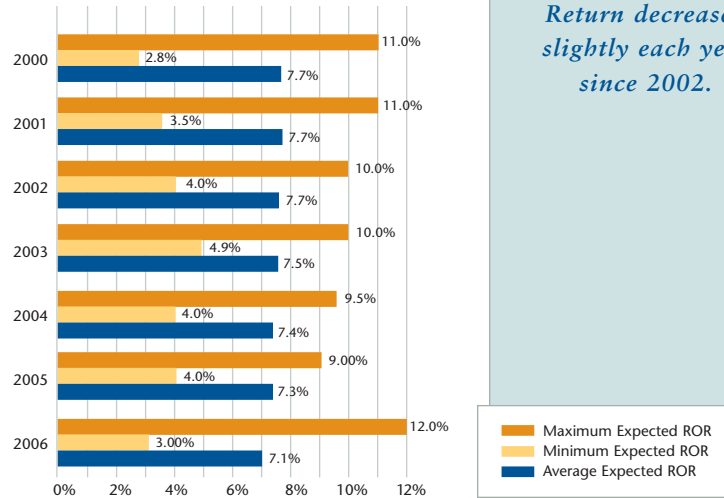


Average Funded Status



Average funded status increased to 89% in 2006. Since the measurement of both assets and liabilities were based on a market value basis, the funded status results were quite volatile.

Average Expected Long Term Rate of Return on Assets



The Average Expected Long Term Rate of Return decreased slightly each year since 2002.

Fast Fact

The Principal provided administrative services to approximately 1,600 DB plans with 319,000 participants totaling more than \$11.4 billion in assets.



Funding for Defined Benefit Plans

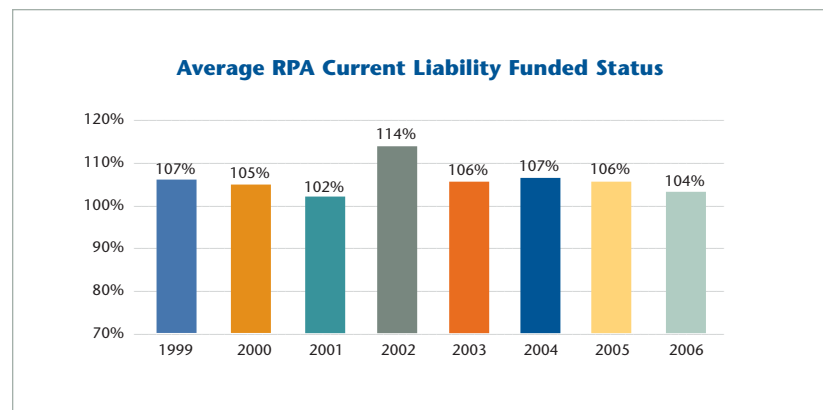
One method to measure a plan's funded status is to compare the actuarial value of plan assets to the Retirement Protection Act of 1994 (RPA) current liability. The RPA current liability, for plans complying with ERISA, is the present value of accrued plan benefits based on the interest and mortality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

The average RPA current liability funded status declined slightly from 106 percent in 2005 to 104 percent in 2006.

The average RPA interest rate declined from 6.0% in 2005 to 5.8% in 2006.

Beginning in 2008, a plan's funded status will be used to determine required contributions, whether any benefit payment restrictions apply, and if plan benefit improvements can be made. A poorly funded plan (less than 60 percent funded) can even be forced to freeze benefit accruals.

The ultimate goal of the Pension Protection Act (PPA) is for plan sponsors to fund 100 percent of the current market value of accrued benefits.



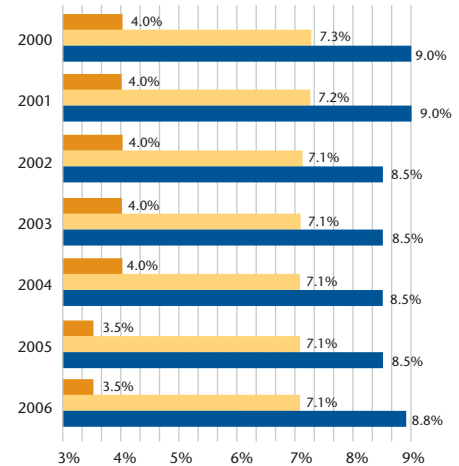
Interest Rates

One major assumption used in determining the required annual funding is the interest rate, which helps estimate the value of plan liabilities. The pre-retirement rate reflects what plan assets are expected to earn, while the post-retirement rate can reflect either the expected return on plan assets for benefits paid monthly from the fund, or the interest rate used to set the purchase price or single sum distribution at retirement.

The average pre-retirement interest rate remained nearly unchanged from 2005 at 7.1%. The maximum increased slightly from 8.5% to 8.8% while the minimum remained unchanged at 3.5%.

Minimum
Average
Maximum

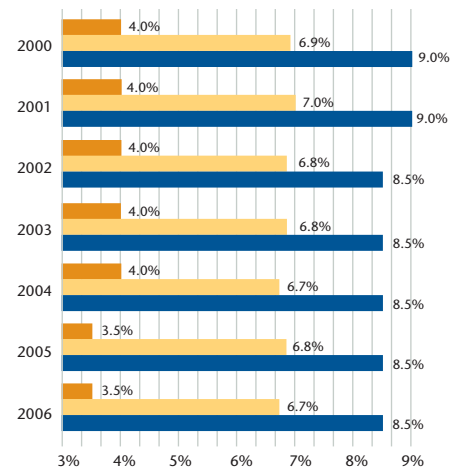
Pre-Retirement Interest Rate
by Valuation Year



The minimum post-retirement interest rate was the same as the pre-retirement rate; however, the average post-retirement interest rate was lower at 6.7% and the maximum was 8.5%.

Minimum
Average
Maximum

Post-Retirement Interest Rate
by Valuation Year



DB plan data shown under accounting and funding for 2006 was collected from approximately 700 DB plans for which The Principal provided actuarial services

Nonqualified Deferred Compensation Plans

Since nonqualified deferred compensation (NQDC) plans can be used to recruit, retain, and reward key employees, as well as provide the opportunity to accrue benefits above qualified retirement plan limits, it is no wonder that many organizations are embracing their value.



Meeting the Unique Needs of Plan Sponsors & Key Employees

As the number one deferred compensation plan recordkeeper¹, The Principal provided services for more than 3,800 nonqualified retirement plans that represented nearly 43,000 participants in 2006. This is approximately a 10 percent increase in the number of plans from 2005 and a 15 percent increase in the number of participants.

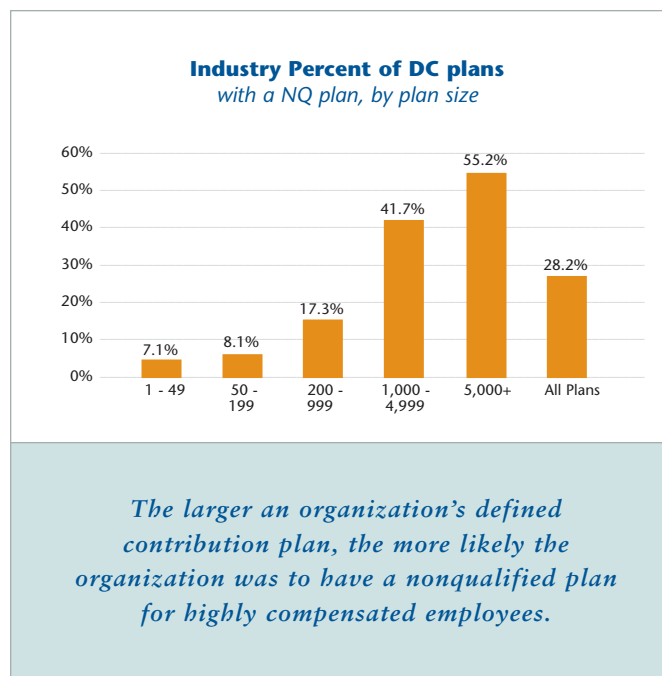
The most common nonqualified plan offered by plan sponsors is the Executive Bonus & Split Dollar plan. While offered by 52 percent of plan sponsors, it only represented 20 percent of participants. The plans offered to a majority of the participants, representing 36 percent of plan sponsors, were nonqualified DB and nonqualified DC plans. The remaining 12 percent of plan sponsors and 26 percent of participants were covered by 457 plans.

In 2006, approximately 85 percent of NQ plans offered were NQDC plans. The next most popular plan was a nonqualified Defined Benefit (NQDB) plan (52 percent).

Nonqualified plans can play an important role in attracting and retaining key employees. This was particularly true for large corporations. Companies with more than 1,000 employees had a significantly higher presence of NQ plans.

¹Based on number of plans records kept (including 401(k) mirror plans), PLANSPONSOR deferred compensation provider stats, PLANSPONSOR.com, December 2006.

²PLANSPONSOR magazine, "NonQualified Deferred Compensation Survey: Purpose Full", January 2007.



Source: Profit Sharing Council of America (PSCA)
50th Annual Survey of Profit Sharing and 401(k) Plans.

Fast Fact

NQDC plans are most commonly offered to help retain key employees and to provide executives with a retirement benefit.

THE PENSION PROTECTION ACT

In 2007, legislative changes affecting deferred compensation created the potential for significant change for employers, participants, and plan administrators alike. The Pension Protection Act of 2006 enacted new corporate-owned life insurance (COLI) provisions. COLI is one of the financing methods used by employers within deferred compensation plans.

The bigger impact occurred on April 10, 2007, when the Treasury Department and the Internal Revenue Service (IRS) published its long-awaited final regulations for nonqualified deferred compensation arrangements governed under Internal Revenue Code (IRC) Section 409A. The American Jobs Creation Act of 2004 created the addition of Section 409A of the IRC, which specifically addresses nonqualified deferred compensation plans.

The good news for employers with existing plans or considering new plans is that many of the attractive key features of nonqualified deferred compensation plans are now codified in Section 409A. However, it is essential for employers to take action to ensure they are using best practices and taking advantage of transition relief available until the end of 2008.

The Principal suggests employers consider these steps as a result of the legislative changes over the past several years:

- 1 Identify and review plans impacted by Section 409A.
- 2 Avoid material modifications that affect “grandfathering.”
- 3 Conduct a Section 409A “capabilities audit” of plan administrators.
- 4 For public companies: account for key employees.
- 5 For not-for-profit organizations: don’t overlook Section 457(f) plans.
- 6 Establish new deferred compensation plans.

The IRS issued Notice 2007-86 on October 22, 2007, providing transition relief for compliance with Section 409A. Plans with amounts subject to 409A must be fully compliant by January 1, 2009. **As a matter of best practice, in 2008, plan sponsors should consider operating their nonqualified deferred compensation plans consistently with the final regulations.** Employers need to take action to ensure their participants avoid penalties and interest for noncompliance by the employer.

Fast Facts

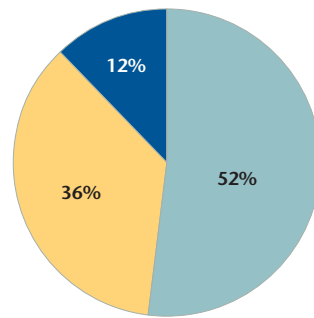
NQDC plans were more common in organizations with 1,000 or more employees and in public organizations.

NQDC plans were more common in the financial and service industries than in the construction and wholesale/retail industries.

54% of NQDC plans were funded by the company and 37% were not funded by the company.³

More than half of nonqualified plans were executive bonus and split dollar plans.

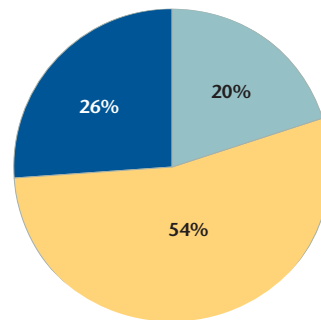
**Nonqualified Plans,
Percent of Plans**



Executive Bonus & Split Dollar Plans
NQDC & NQDB
Executive 457(b) & 457(f)

The largest number of nonqualified participants were covered under nonqualified defined contribution and nonqualified defined benefit plans.

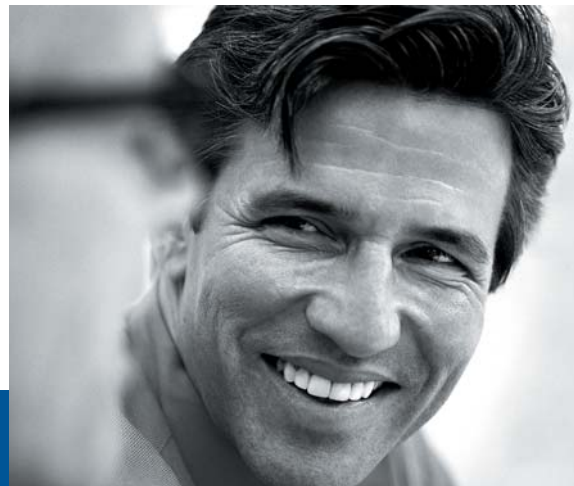
**Nonqualified Plans,
Percent of Participants**



Fast Fact

Research showed that NQDC plans were the second most common executive benefit offered, following life insurance for key employees.³

³LIMRA International 2006 – The Value of Executive Benefits to Corporate Executives.



Employee Stock Ownership Plans Gain Popularity



The number of Employee Stock Ownership Plans (ESOPs) continued to rise with more than 9,500 ESOPs in the United States representing more than 10.5 million participants¹.

Growth of ESOPs

Whether improving business productivity, providing an ownership succession plan (for private ESOPs only), serving as a corporate recapitalization aid, or providing employees with incentives and retirement savings, the benefits of giving employees a stake in the company's future can be virtually endless.

The popularity of these plans can be seen in the numbers. **From 2005 to 2006, the number of employees covered by an ESOP increased by 3.4 percent to 10.5 million, and the number of ESOP plans increased by 4.6 percent to 9,650 plans.**¹ Approximately 2,500 firms were majority-owned and roughly another 1,000 firms were believed to be 100 percent ESOP-owned.²

Employer security plans available include stand-alone ESOPs, ESOPs with separate 401(k) plans, and KSOPs which incorporate ESOP and 401(k) features into one plan. Nearly half (42 companies) of the nation's top 100 majority-owned ESOP companies selected The Principal for their administrative services.³

¹ According to General Social Survey; <http://www.nceo.org/library/widespread.html> as of Feb. 2007.

² www.NCEO.org

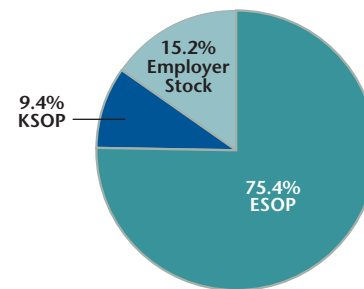
³ Source: as of June 2007, National Center for Employee Ownership Top 100 List and The Principal Financial Group.

Year	Number of Participants	Number of Plans
2006	10,500,000	9,650
2005	10,150,000	9,225
2000	8,500,000	7,700
1990	5,000,000	8,080
1980	3,100,000	4,000
1975	250,000	1,600

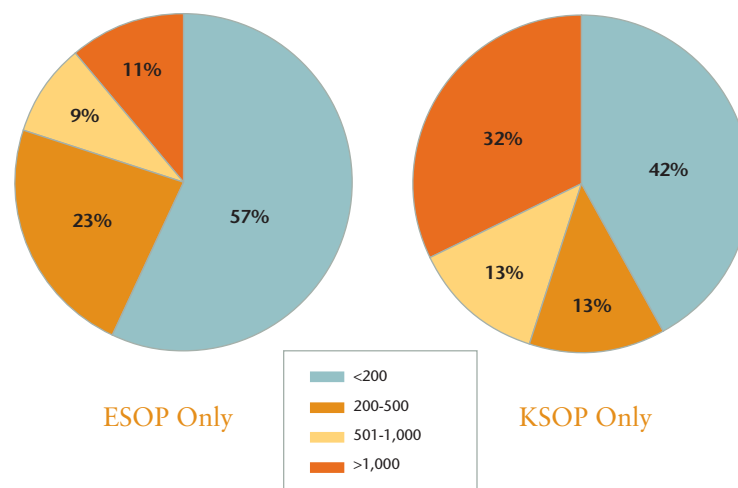
Source: http://www.nceo.org/library/eo_stat.html

More than 75% of the total plans were ESOP plans with services provided by The Principal; 9% were KSOPs; and another 15% were considered other defined contribution plans invested in employer stock.

Employee Stock Type Plans



ESOP Plans and Participants



Fast Fact

By the end of 2006, The Principal provided services to 606 ESOP plans representing more than \$14 billion in assets and more than 300,000 participants.

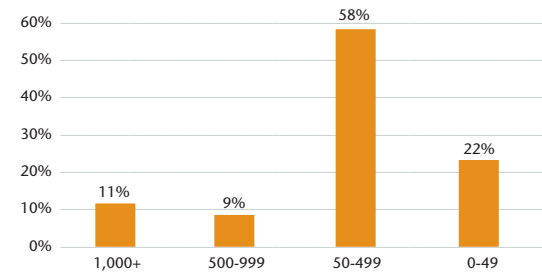
The Principal provided administrative and consulting services to more than 780 ESOPs and KSOPs. The 606 ESOP plans represented more than \$14 billion in assets and more than 300,000 participants. Approximately 20 percent of the ESOP and 40 percent of the KSOP plans that Principal Financial Group provided services for had 500 or more participants.

Similar to 2005, 75 percent of the total plans were ESOP plans with services provided by The Principal, 9 percent were KSOPs, and another 15 percent were considered other defined contribution plans invested in employer stock.

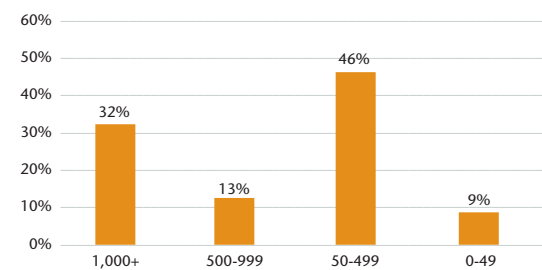
A large majority of the ESOP plans that we provided services for were private plans and roughly 10 percent were public plans. The percent of public ESOP plans served by The Principal was slightly higher than the overall ratio in the market. The corporation type of ESOP plans served by The Principal was nearly evenly split between C-Corporations and S-Corporations, while the KSOP plans were more heavily weighted with C-Corporations.

Approximately 20% of ESOPs and more than 40% of KSOPs served by The Principal covered plans with 500 or more participants.

Percent of Principal ESOP Plans
by plan size (# of participants)



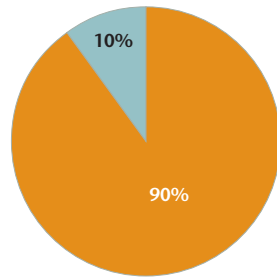
Percent of Principal KSOP Plans
by plan size (# of participants)



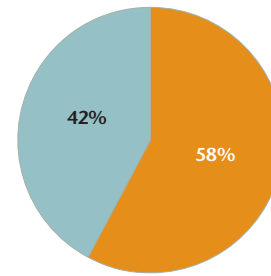
Ninety percent of ESOP plans with services provided by The Principal were invested in privately held company securities.



Percent of ESOP Plans – Private vs. Public Stock



Percent of KSOP – Private vs. Public Stock

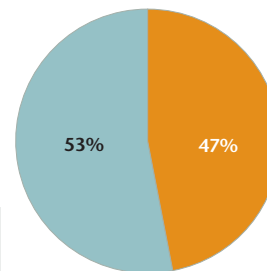


More than half of KSOP plans with services provided by The Principal were invested in privately held company securities.

The balance of C-corporations and S-corporations offering ESOPs was nearly even.



Percent of ESOP Plans – C-Corporations vs. S-Corporations



Methodology

Data Selection

Data used in *The Total View* is drawn from a subset of retirement plans with services provided by The Principal.

This report also includes data as of December 31, 2006, on:

- 32,551 full-service 401(k) plans with a balance as of year-end 2006. These plans represented approximately 2.8 million participants and approximately \$79.6 billion in assets.
- 789 employer security plans (ESOP and KSOP) covering 642,399 participants with over \$15 billion in assets

- 1,599 defined benefit plans covering more than 305,000 lives with assets of \$8.9 billion in defined benefit retirement funds
- 3,800 nonqualified deferred compensation arrangements covering 43,000 participants with liabilities of \$3.2 billion

The Total View incorporates:

1. Percentages in graphs generally rounded to integer percentages in order to increase readability
2. Industry categories based on Standard Industrial Classification codes

New plans effective in 2006 were excluded from the analysis.

Rate Calculations

Calculation of participation rates, non-participant elective deferral rates, and elective deferral rates are for active participants. Calculations for most plan level data excludes those participants which were new to the plan in 2006, and participants with no account balance. Participant level data (indicated as Individual Investor Services data) is calculated without these indicated plan-level exclusions.

Participation rate is 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 at any time on or before 2006, whether or not they were present at the end of the year. An active participant is defined as any eligible employee who made an elective deferral contribution during the 2006 plan year.

Analysis regarding participation rates reflects participants and eligible non-participants. Analyses of participant asset allocation, account balances, age, compensation, and tenure include all record-kept 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 2006 plan year employee elective deferral contributions divided by 2005 plan-year compensation. Compensation is defined as the 2005 compensation used for non-discrimination testing with a three percent salary increase assumption applied.

The average elective deferral rate percentages for compensation, gender, tenure, and participant age are calculated using the elective deferral contributions for all participants in the category divided by the total compensation for that category. There is a difference in this calculation from the plan level categories' average deferral rate calculation. This difference makes the individual breakdowns' average elective deferral rate more conservative. In 2006, this calculated a lower average elective deferral rate per category compared to the plan level average elective deferral calculation. These breakdowns are used for trending purposes only.

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 contribution and dividing by the total compensation within the plans.

OTHER ITEMS

Account Balances

Account Balances represent the active participants' accounts as of December 31, 2006, 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.

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 \$5,000.

Loans

Loans were counted based on all active employees' loans outstanding as of December 31, 2006.

Withdrawals

Withdrawal statistics are shown for all active employees who made a withdrawal in 2006.

Highly Compensated Employee (HCE)

Employees whose 2006 salary was \$100,000+ and were among the top 5 percent of wage earners at their company are classified as Highly Compensated Employees (HCE).

Glossary

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

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 SuiteSM – 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 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 and Principal Strategic Asset Management Portfolio is available through a Separate Account or Principal Investors mutual fund. Principal LifeTime Separate Accounts and Principal Strategic Asset Management 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.