



## Tune Up Time for Your Retirement Plan



Monday, August 17, 2009  
11:00 am - 12:15 pm

Vince Rainforth, VP - Business Development,  
Tax-Exempt  
Principal Financial Group

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## Today's Agenda

- Fiduciary Trends
- Legislation
- Investment Expectations
- Investment Choices
- Fees
- Participant Attitudes
- Participation/Deferral Rates
- Plan Sponsor Attitudes



## Fiduciary Trends



## Common Fiduciary Mistakes

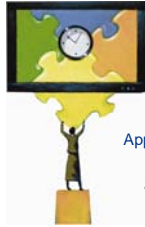
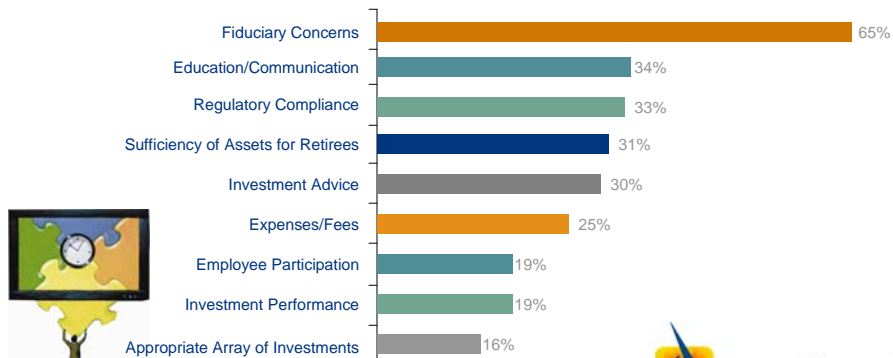
Failure to:

1. Establish written policies and procedures
2. Follow policies and procedures
3. Do investment due diligence
4. Measuring & evaluating fees
5. Administer correctly, monitor periodically
6. Identify conflicts of interest
7. Differentiate between your corporate and your plan fiduciary roles
8. Appropriately manage company stock
9. Give employees the help they need
10. Take action



## Plan Sponsor - Next Three Years Race

Fiduciary concern continues to be the #1 issue of importance to plan sponsors.



Source: IOMA's Annual Defined Contribution Survey, 2006



## Common 404(c) Mistakes

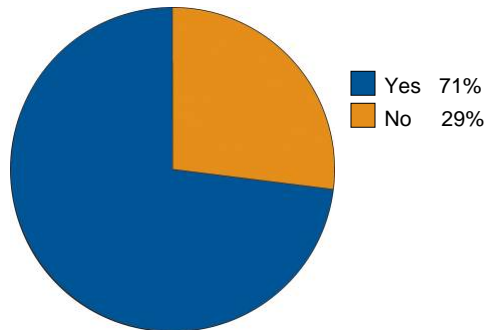
### Failure to:

- Communicate to participants that the plan intends to comply with 404(c)
- Identify the fiduciary
- Provide participants with prospectuses



## Investment Monitoring Trends

Do you have a formal written Investment Policy?



Source: PLANSPONSOR Defined Contribution Survey, 2008



## Investment Monitoring Trends (continued)

When was the last time you replaced an investment option due to poor performance?

Never	17%
Within the last year	40%
1 to less than 2 years	24%
2 to less than 5 years	15%
5 years or longer	4%
<b>Total</b>	<b>100%</b>



Source: Deloitte Consulting, 2008

How do you handle an underperforming investment option?

Replace investment option	70%
Continue to monitor	53%
Add an additional investment option with the same investment style	17%
Freeze investment option (no incoming money)	17%
Phase out investment option over period of time	15%
Hasn't happened	10%
Other	3%

Note: Respondents could choose more than one answer.



# Legislation



## Impact of the Pension Protection Act (PPA) on Automatic Enrollment

- Qualified Automatic Contribution Arrangement (QACA)
- Four key components:
  - Minimum automatic employee salary deferrals, including deferral escalators (if applicable)
  - Required employer contributions
  - Immediate 100% vesting not required
  - Participant notices—must include information regarding the automatic contribution arrangement
- Satisfies Actual Deferral Percentage (ADP) testing
- Plan may not be subject to Actual Contribution Percentage (ACP) and top-heavy nondiscrimination testing



## Qualified Default Investment Alternative (QDIA) Notice Regulations

- QDIA requirements
- Fiduciary may qualify for relief if certain requirements are met
- Three types qualify as safe harbors:
  - Target-date or life-cycle funds
  - Balanced funds
  - Managed accounts
- New QDIAs on the horizon

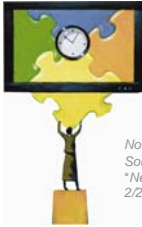


## Investment Expectations



## In Touch with Reality?

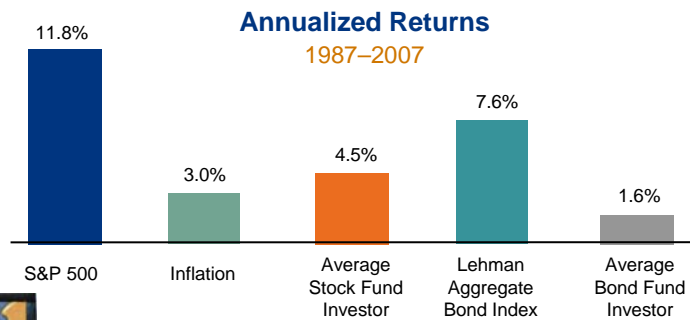
Asset Class	Expected Avg. Annual Return Next 20 Years	1988-2008*
Equities	14.45%	10.7%
Bonds	11.12%	8.9%
Money Market Funds	10.29%	4.5%
Stable Value Option	10.65%	N/A



Note: Latest data available for the expected average return for the next 20 years.  
 Source: John Hancock Financial Services Survey, 2003  
 \*Ned Davis Research, Inc., "Comparative Investment Returns Over 20 Years,"  
 2/29/88 – 2/29/08



## Poor Investment Choices Have Been Costly



Past performance is no guarantee of future results.  
 Source: Dalbar, Inc. 2008



# Asset Class Performance

1994 – 2008

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Annualized Returns 10/1/1994-12/31/2008
Large-Cap Growth	4 2.62%	2 3/10%	2 23.12%	4 30.45%	1 82.71%	4 33.16%	10 22.42%	11 33.62%	11 22.88%	9 30.5%	11 6.30%	8 3.26%	11 9.07%	3 11.81%	7 38.44%	8 4.82%
Large-Cap Value	7 14.0%	1 38.35%	3 21.64%	1 35.0%	5 14.31%	7 22.0%	6 20.0%	8 5.59%	8 35.1%	8 30.6%	6 16.49%	7 7.5%	5 20.3%	9 -0.7%	5 36.35%	5 -0.4%
Mid-Cap Growth	9 -3.6%	4 33.98%	6 17.48%	5 22.51%	3 17.6%	2 51.29%	8 11.75%	10 20.35%	10 27.41%	4 42.72%	7 15.44%	4 13.4%	10 10.66%	4 11.43%	11 -4.32%	7 3.34%
Mid-Cap Value	8 2.13%	3 34.91%	5 20.26%	2 34.37%	7 5.08%	9 -0.1%	3 19.18%	6 2.33%	6 -9.64%	6 38.0%	3 21.70%	6 11.60%	6 20.22%	10 -14.2%	8 38.44%	2 8.63%
Small-Cap Growth	10 2.44%	5 31.84%	8 11.26%	8 12.95%	9 1.3%	3 43.09%	11 22.43%	9 8.21%	12 30.26%	2 48.54%	9 38.0%	10 4.1%	8 11.35%	6 7.05%	9 38.54%	11 2.77%
Small-Cap Value	6 -1.55%	6 25.75%	4 21.37%	3 31.78%	10 -6.45%	11 -1.49%	2 22.83%	1 14.02%	7 11.41%	3 46.03%	4 22.7%	9 4.7%	4 23.48%	11 -9.77%	4 28.92%	3 8.39%
International	1 7.78%	10 11.21%	10 6.05%	11 1.78%	2 20.00%	5 24.9%	9 18.15%	12 21.67%	9 15.94%	5 38.50%	5 20.2%	3 13.54%	3 25.71%	5 1.17%	10 -43.38%	10 3.52%
Emerging Markets	12 7.21%	12 5.20%	11 6.01%	12 25.34%	1 66.0%	1 30.6%	7 2.4%	5 30.6%	1 56.2%	2 25.55%	2 24.00%	2 12.5%	2 39.77%	1 33.18%	12 2.73%	12 2.73%
Core Bonds	11 -2.92%	8 18.46%	12 1.64%	10 9.64%	6 4.70%	5 0.52%	10 14.33%	5 8.4%	3 16.20%	12 0.3%	12 -4.33%	12 -6.67%	12 -6.67%	7 -6.17%	1 -6.17%	6 -6.17%
High Yield Bonds	5 -1.03%	7 19.17%	7 11.35%	9 12.76%	8 1.87%	8 2.39%	7 -5.86%	5 5.28%	4 -1.36%	10 28.97%	10 11.3%	11 2.74%	9 11.21%	8 1.92%	3 -26.16%	9 4.20%
Real Estate Securities	3 3.17%	9 15.27%	1 32.2%	6 20.26%	11 -12.50%	12 -4.62%	1 26.37%	2 13.91%	3 3.82%	7 17.1%	3 31.58%	5 12.16%	1 35.06%	5 15.69%	6 -37.73%	4 8.20%
Direct Property	2 6.39%	11 2.54%	9 10.11%	7 13.91%	4 16.24%	4 11.36%	4 12.24%	4 7.28%	4 6.74%	2 13.99%	11 34.48%	8 20.0%	2 16.59%	7 15.84%	2 0.84%	1 11.28%**



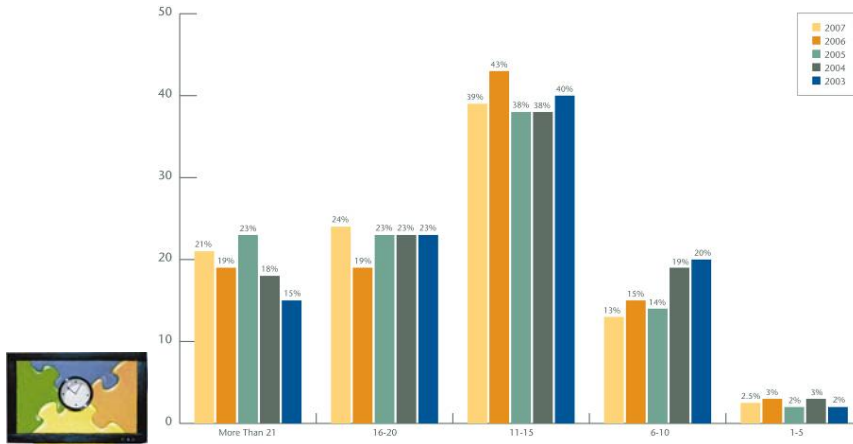
Past performance is not a reliable indicator of future performance. Large-cap growth stocks are represented by the annual total returns of the Russell 1000 Growth Index. Large-cap value stocks are represented by the annual total returns of the Russell 1000 Value Index. Mid-cap growth stocks are represented by the annual total returns of the Russell Midcap Growth Index. Mid-cap value stocks are represented by the annual total returns of the Russell Midcap Value Index. Small-cap growth stocks are represented by the annual total returns of the Russell 2000 Growth Index. Small-cap value stocks are represented by the annual total returns of the Russell 2000 Value Index. International stocks are represented by the annual total returns of the MSCI EAFE Index. Emerging stocks are represented by the annual total returns of the MSCI Emerging Index. Core bonds are represented by the annual total returns of the Lehman Aggregate Index. High yield bonds are represented by the annual total returns of the Lehman High Yield Index. Real Estate securities are represented by the annual total returns of the NAREIT Index. Direct Property is represented by the annual total returns of the NCREIF Property Index. The indexes are unmanaged and do not take transaction charges into consideration. It is not possible to invest directly in an index.



# Investment Choices

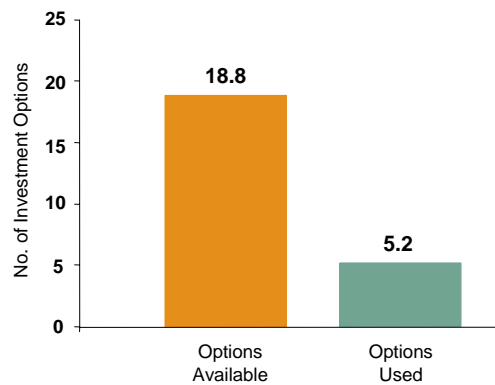


## Too Many Choices?



Source: 51st Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing Council of America (2007)

## Do Participants Take Advantage?



Source: PLANSPONSOR DC Survey, 2008

## “Do It For Me” Models: Americans Favor “Autopilot” Features

**98%** are glad their employer offers automatic enrollment<sup>1</sup>

**99%** have a positive experience with automatic enrollment<sup>2</sup>

**96%** support plans that automatically increase contributions<sup>3</sup>

**76%**  
of employees consider themselves “Do-it-for-me” investors<sup>4</sup>

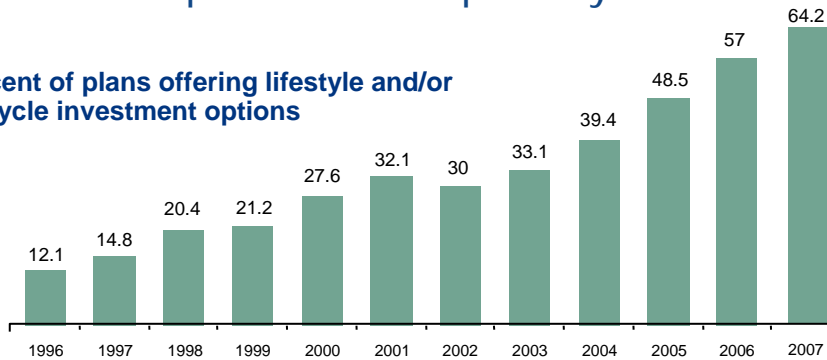


<sup>1</sup> Harris Interactive, “Retirement Made Simpler,” October 2007  
<sup>2</sup> Deloitte’s Annual 401(k) Benchmarking Survey (2006 edition)  
<sup>3</sup> The Expected Impact of Automatic Escalation of 401(k) Contributions on Retirement Income, EBRI, 2007  
<sup>4</sup> My Principia® Edge Milestones participant database, June 2007



## Lifecycle/Lifestyle Investment Options Gain Popularity

**Percent of plans offering lifestyle and/or lifecycle investment options**



Source: Profit Sharing/401(k) Council of America, 2008



# Fees



## What About Fees?

- Fees charged to a plan must be “reasonable”
- ERISA proposed 408(b)(2) regulation—in writing:
  - List all services provided
  - Identify compensation or fees received for each service
  - Explain how the compensation or fees are received (direct billing, deduction from plan accounts or charge against plan investments)



## When Evaluating Fees...

- Investment Option Fees:
  - Some investment options may have higher fees
  - Lower fee doesn't = better performing investment options
  - Cheaper not necessarily better
  - Just one part of the larger picture
- Plan Fees:
  - Make informed decisions
  - Look at the full value of all services
  - Ask which services the fees cover
  - Compare all services received with total cost



Source: RE0000.848.0904, September 17, 2004



## Fees

### How are your 401(k) plan's recordkeeping/ administrative service fees paid?

All fees paid through investment revenue		46%
Some or all of the fees are not covered by investment revenue, so there is a direct fee that is charged		40%
The Company pays this fee directly	64%	
This fee is allocated to participants	25%	
Pro rated based on account balances	53%	
Equal dollar amount to all participants	47%	
Both the company and the participants pay this fee	11%	
Some or all of the fees are not covered by investment revenue, so there are additional fees in the form of wrap fees or added basis point charges on the investments		5%
Other		9%
<b>Total</b>		<b>100%</b>

Source: Deloitte Consulting, 2008



### Have your plan's total annual recordkeeping/administrative service fees changed notably from last year?

No	89%
Yes, they've decreased	10%
Yes, they've increased	1%
<b>Total</b>	<b>100%</b>

Source: Deloitte Consulting, 2007



# Plan Sponsor Fee Disclosure to Participants

## Disclosure of Fees

	Percent of Plans	
	Administrative Fees	Investment Management Fees
Only upon participant's request	38%	30%
Disclose periodically by written communications	26%	23%
With participant account statements	28%	33%
Other (e.g., prospectus, summary annual report, summary plan description)	8%	14%



*Note: The Principal® encourages fee transparency.  
Source: Hewitt, 2005*



## Participant Attitudes



## Savings Levels

- 42 percent of workers think they should save 11 percent or more of their pre-tax salary for retirement<sup>1</sup>
- Only a small minority (11 percent) actually save this much in real life<sup>1</sup>
- While eight in 10 employees had started saving for retirement, almost half of them had saved less than \$25,000<sup>2</sup>



<sup>1</sup> 2007 3<sup>rd</sup> Quarter The Principal Financial Well-Being Index<sup>SM</sup>

<sup>2</sup> 2008 Employee Benefit Research Institute (EBRI) Retirement Confidence Survey



## Do Participants Think They Will Have Enough for Retirement?

Worker Confidence in Having Enough Money to Live Comfortably Throughout Their Retirement Years

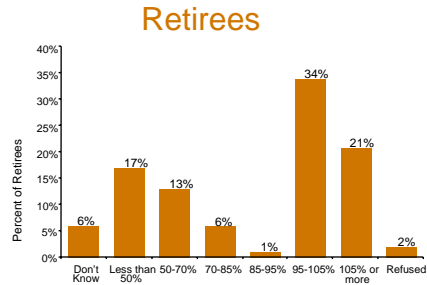
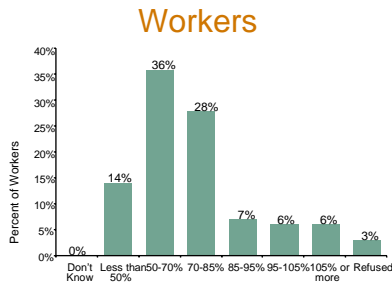
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Very Confident	25%	22%	23%	21%	24%	25%	24%	27%	18%
Somewhat Confident	47%	41%	47%	45%	44%	40%	44%	43%	43%
Not too Confident	18%	18%	19%	17%	18%	17%	17%	19%	21%
Not at all Confident	10%	17%	10%	16%	13%	17%	14%	10%	16%



Source: 2008 Retirement Confidence Survey, EBRI



## 50% of Workers Expect to Live Comfortably on 70% or Less of Their Pre-Retirement Income



Source: 2006 Retirement Confidence Survey, Employee Benefit Research Institute



## Easy Ideas To Save Money<sup>1</sup> (Share With Your Staff)

Bring/make coffee at work instead of buying it daily **\$29,453.63**

Eat a brown bag lunch daily **\$147,268.17**

Rent a movie instead of going to the theater twice a month **\$21,730.58**

Eat dinner at home one more time a week instead of going to a restaurant **\$176,721.81**

Give yourself a manicure instead of visiting the salon monthly **\$16,312.78**



<sup>1</sup> Savings over 30 years if invested in a financial vehicle averaging 8% per year, compounded annually.

Source: GE Center for Financial Learning



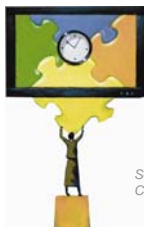
## Participation/Deferral Rates



## Participation and Average Deferral Rates

### Defined Contribution

	2001	2002	2003	2004	2005	2006	2007
Participation Rate	78%	80%	76%	77%	84%	84%	85%
Average Deferral Rate	5.3%	5.2%	5.2%	5.4%	5.4%	5.4%	5.6%

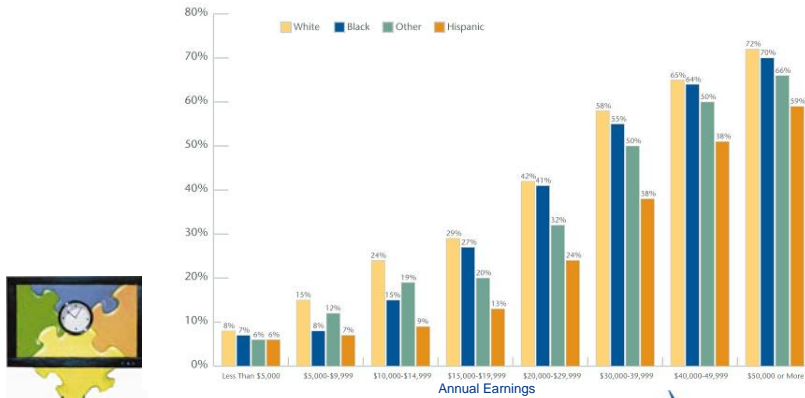


Source: 51st Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing Council of America (2007)



# Participation Rates

Percentage of Wage and Salary Workers Ages 21-64 Who Participated in an Employment-Based Retirement Plan, by Annual Earnings and Race/Ethnicity, 2007

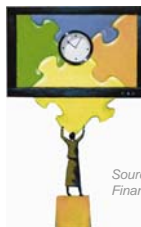
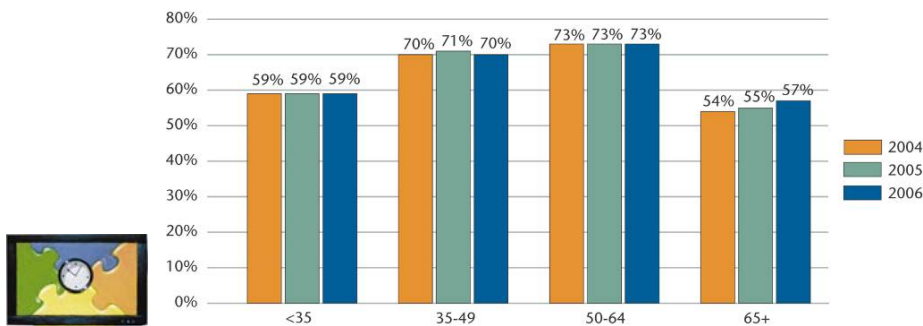


Source: Employee Benefit Research Institute estimates from the 2008 March Current Population Survey



# Participation Rates

Participation Rates by Age Group

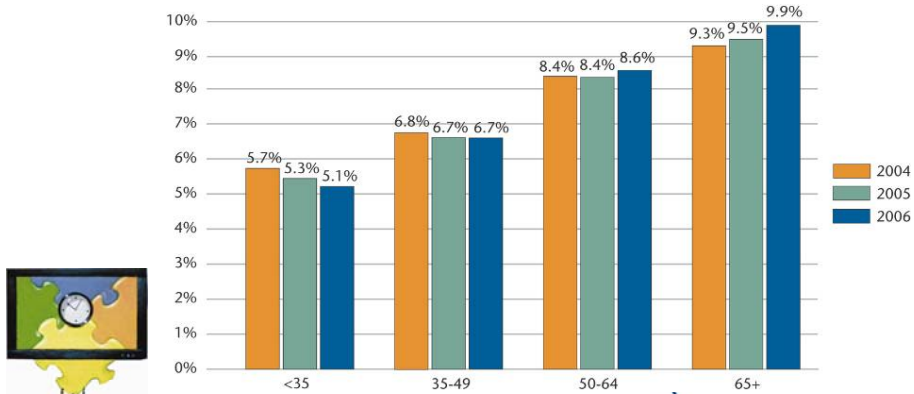


Source: The Total View: 2007 Retirement Plan Trends and Forecast; The Principal Financial Group



## Average Salary Deferral Rates

### Average Salary Deferral Rates by Participant Age

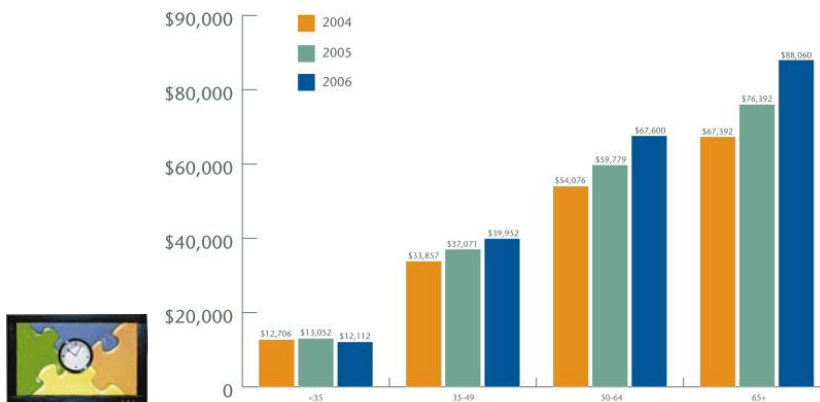


Source: The Total View: 2007 Retirement Plan Trends and Forecast; The Principal Financial Group



## Average Account Balances

### Average Account Balances by Participant Age

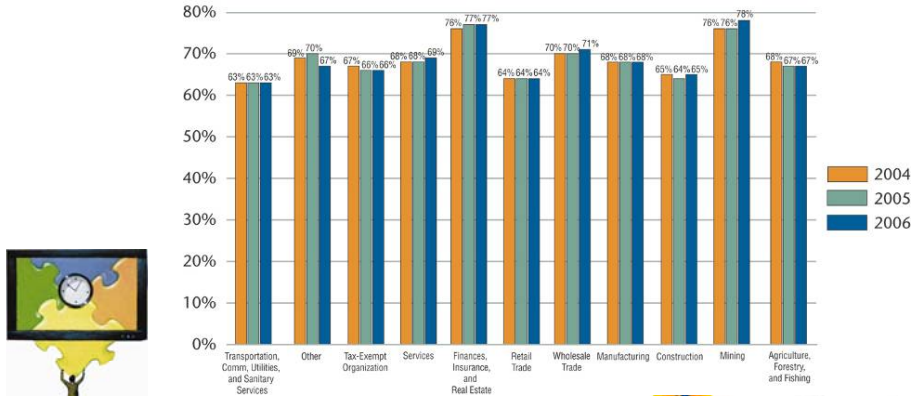


Source: The Total View: 2007 Retirement Plan Trends and Forecast; The Principal Financial Group



# 401(k) Plan Stats by Industry

## Participation Rates by Industry Category

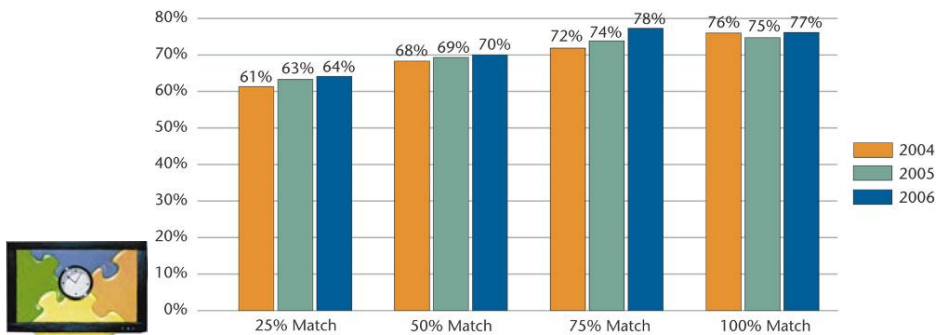


Source: *The Total View: 2007 Retirement Plan Trends and Forecast*; The Principal Financial Group



# Money Talks - Offering Incentives

## Participation Rates by Stated Match

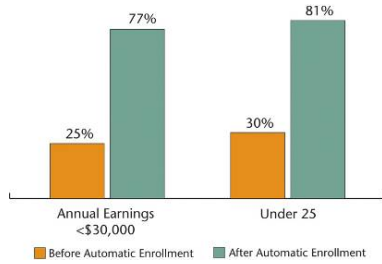


Source: *The Total View: 2007 Retirement Plan Trends and Forecast*; The Principal Financial Group



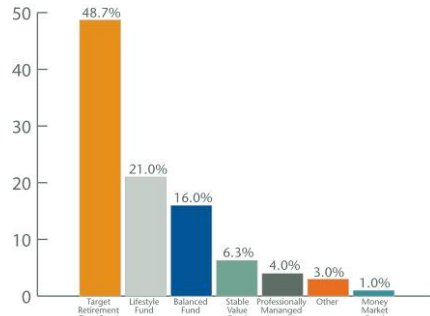
# Can Plan Design Affect Participation?

**Automatic Enrollment Increases Participation Rates**



Source: "Measuring the Effectiveness of Automatic Enrollment," Vanguard Center for Retirement Research, December 2007

**Most Common Default Investment Options in Automatic Enrollment Plans**

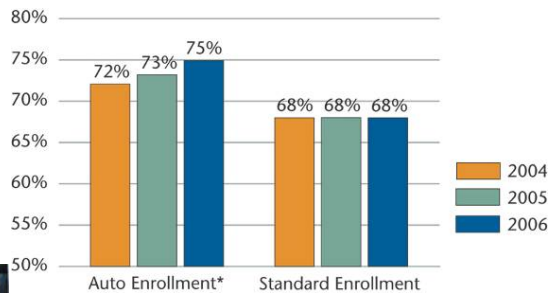


Source: 51st Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing Council of America (2007)

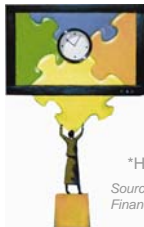


# "Do It For Me" Models: Auto Enrollment Increases Participation...

**Average Participation by Enrollment Selection**



Participation continued to increase with use of an automatic enrollment feature.



\*Have adopted auto enrollment for newly hired employees.

Source: The Total View: 2007 Retirement Plan Trends and Forecast; The Principal Financial Group



## Beware of the Dark Side.....

- The “Default Effect”
- Initially, 80% accepted the default savings rate and the default investment option
- Three years later, over half still invest at the default savings rate and default investment option
- Participants tend to anchor at the low default savings rate and in a conservative default investment option



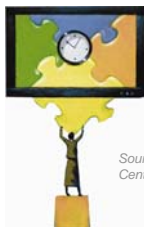
Source: "Individual Responsibility and the Imperfect Investor: The Need for Automating the 401(k) Plan," *Benefits Quarterly*, Fourth Quarter 2005.



## “Do it for me” Solutions = Results

	Without Automatic Enrollment	Automatic Enrollment
New Hire Initial Participation	45%	86%
New Hire Avg Employee Deferral Rate	2.8%	3.6%
Contribution Allocation 100% Investment Default	21%	67%

Based on new employees hired between January 1, 2004, and September 31, 2006, as of December 31, 2006.



Source: "Measuring the Effectiveness of Automatic Enrollment," *Vanguard Center for Retirement Research*, December 2007.



## Plan Sponsor Attitudes

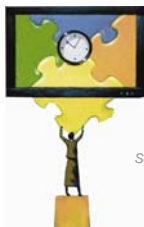


## Most Important Reason For Switching Service Providers

### By Plan Assets

Base: excludes switches due to merger/acquisition

	Total %	<\$2.5M	\$2.5M to <\$5M	\$5M to <\$25M	\$25M to <\$100M	\$100M +
Services	34%	33%	29%	38%	53%	43%
Investments (net of next two items)	24%	24%	22%	29%	19%	14%
Poor fund performance	13%	13%	11%	17%	14%	7%
Wanted better variety of funds	10%	9%	11%	14%	5%	6%
Cost	19%	18%	26%	17%	5%	14%



Source: 2006 Brightworks study



## Most Important Changes to Plan in Coming Year by Total Plan Assets (\$ million)

	\$3 and Under	\$3.1 to \$10	\$10.01 to \$30	\$30.1 to \$80	\$80.1 to \$250
Increasing participation	60%	53%	69%	71%	33%
Increasing match	20%	12%	8%	21%	20%
Adding investment options	20%	12%	23%	14%	20%
Eliminating investment options	10%	0%	8%	0%	7%
Replacing a fund	20%	18%	38%	21%	7%
Post-retirement advice	0%	18%	23%	14%	13%
Changing plan structure (bundled, partially unbundled, etc.)	20%	12%	0%	7%	0%
Adding/enhancing communications	20%	24%	23%	21%	67%
Adding Investment advice	0%	18%	8%	0%	7%
Improving employee asset allocation	10%	29%	15%	14%	27%
Reducing fees	30%	29%	15%	14%	27%



Source: IOMA, Plans in Transition, 2006



## Changing Drivers for Switching Service Providers

### Top Three Traditional Drivers for Switching Service Providers

We wanted a service provider that was easier to work with **47%**

We wanted to reduce the investment cost in our plan **40%**

We wanted to reduce the overall cost of our 401(k) program **40%**

### Top Three Emerging Drivers for Switching Service Providers

We wanted better investment advice for our participants **55%**

We wanted a service provider that would help us manage our fiduciary exposure **46%**

We wanted a broader choice of fund families in the investment line-up **42%**



Source: 2006 Brightworks Study



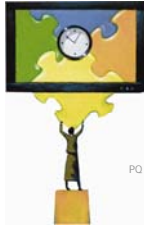
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# Questions?



WE'LL GIVE YOU AN EDGE®



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