



# Building income for life

Guaranteed income with  
Principal Pension Builder<sup>SM</sup>.



# Planning for a lifetime of income in retirement

**Have you ever had one of those crucial moments where a lot of things change? Well, retirement is like that.**

And the financial part is a big issue. Instead of getting that regular paycheck, employees need to figure out how to use their retirement savings, Social Security and other possible sources of income to create an income stream — and make sure it will last through retirement.

How big of a concern is this? Well, two-thirds of Americans believe that there is a chance that they'll outlive their savings — one in three think the likelihood is more than 51 percent, and 14 percent feel it's a certainty.<sup>1</sup>

Luckily, planning ahead for retirement income can help employees solve this challenge — and they want the help in their employers' retirement plan.<sup>2</sup>



Say they prefer a retirement plan with guaranteed fixed monthly payments for their life in retirement over a plan where they must make a decision on a lump sum at retirement and figure it out themselves.<sup>2</sup>

<sup>1</sup> Northwestern Mutual Planning and Progress Study, 2016.

<sup>2</sup> PWC, Financial Wellness Survey, April 2017.

## Principal Pension Builder

Principal Pension Builder is a way to build up guaranteed income for retirement while still working.<sup>3</sup> This helps a participant retire with an income plan. And because it's offered within the existing retirement plan, participants don't have to take distributions to start taking action around guaranteeing income.

Once Principal Pension Builder is added to a plan's lineup, it's like other investment options that allow a lump sum transfer or ability to direct future contributions to it. Each transfer or contribution purchases a known monthly amount of guaranteed income — providing a predictable base and helping ensure they don't outlive their savings.

### Planning ahead

While Principal Pension Builder allows for a lump sum purchase, there can be benefits to buying guaranteed income over time through ongoing contributions, too. Getting an early start with a deferred annuity through Principal Pension Builder means the contributions can typically purchase **a greater amount of guaranteed income rather than waiting until retirement.**

- Because it's in the plan, there is **increased buying power** of group pricing.
- Purchasing guaranteed income over time may **smooth the impact of changing interest rates** on the amount of income purchased.
- Retirement funds used to make Principal Pension Builder purchases are **protected from market fluctuations**, mitigating market risk.
- Having a known amount of guaranteed income helps participants **take control of retirement income planning.**

Here's an example:



\$72,000 Total contributions  
= \$169,000 Total guaranteed income

**At age 50**, a participant starts contributing \$400 per month to Principal Pension Builder in addition to making contributions into other investment options in the plan.

These monthly contributions continue until the participant retires **at age 65.**

**Upon retiring**, the participant receives payments of \$705 per month (approximately \$8,460 per year).

Assuming a 20-year retirement, that's **more than \$169,000 in total guaranteed income** in return for \$72,000 in total contributions!\*

\*This hypothetical example is for illustrative purposes only. Actual Principal Pension Builder interest rates were not used. Hypothetical interest rates assumed in this example were based on annual historical averages during 2002 through 2016. Participant was assumed to be age 50 as of Apr. 1, 2002, with an income start date of Apr. 1, 2017, at age 65. Calculations assume monthly contributions were annualized with a total annual purchase of \$4,800 on April 1 of each year from age 50 through age 64. A monthly income was calculated for each annual contribution and the sum of each purchase equals the final income at age 65. Assumes unisex pricing using a Life with 10-year certain period as the annuity form. The total income received over 20 years of retirement assumes the annuitant lives for 20 years after income payments commence. Actual payments will vary based on factors such as contribution amounts, actual interest rates in effect at the time of purchase, the participant's age at the time of purchase, income start date and annuity option selected.

<sup>3</sup>The ability of Principal Life Insurance Company to pay the guarantee is based on the claims-paying ability of the general account and is subject to the terms of the contract.

**Principal Pension Builder may be right** if a participant meets the following conditions:

- ✔ Is approaching retirement (say, within 10 to 15 years).
- ✔ Is in good health and has a family history of long life expectancy.
- ✔ Does not expect to access this portion of savings before retirement.
- ✔ Does not have guaranteed income from other sources (such as a defined benefit plan) to help cover fixed expenses in retirement.

**It may not be the right fit** for a participant with any of the following conditions:

- ✘ Already has or anticipates solid sources of guaranteed income for retirement.
- ✘ Wants to take full advantage of possible market growth.
- ✘ Is comfortable with some investment risk.

## Flexible, portable — and guaranteed to last

Because Principal Pension Builder is available within the plan lineup, participants maintain control and flexibility:

- They decide when, how often and how much they wish to transfer or contribute.
- Although meant to be a long-term investment, participants can transfer funds out of Principal Pension Builder after they have made a purchase if their needs change. A surrender charge can occur if the transfer is more than 90 days from purchase.<sup>4</sup>
- As they near retirement, participants choose when guaranteed income payments start and what form the payments will take.
- If the participant leaves the plan before reaching retirement, we can issue a deferred annuity certificate to the participant upon request (they can no longer make contributions to Principal Pension Builder). Or, the funds can remain in the plan until the payment start date.

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**For more than 135 years,** Principal Life has demonstrated strength and stability, with consistently high financial strength ratings from A.M. Best Company, Moody's Investors Service, Standard & Poor's, and Fitch Ratings.<sup>5</sup>

Our ongoing service and support will be there when Principal Pension Builder income payments start.

<sup>4</sup> See details of transfers on page 5

<sup>5</sup> Third-party ratings relate to Principal Life Insurance Company and Principal National Life Insurance Company only, and do not reflect any ratings actions or notices relating to the US life insurance sector generally. Source: Fitch Rating — 'AA-' Very Strong - fourth highest of 19 rating levels (Oct. 2016); S&P Global — 'A+' Strong - fifth highest of 20 rating levels (Apr. 2017); A.M. Best — 'A+' Superior - second highest of 13 rating levels (Jan. 2017); Moody's Investors Service — 'A1' Good — fifth highest of 21 rating levels (Nov. 2016). Ratings are not a recommendation to buy, sell or hold a security. Ratings are subject to revision or withdrawal at any time by the assigning agency, and each rating should be evaluated independently of any other rating. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk.

## Offer choice and manage costs

In addition to benefiting employees, adding Principal Pension Builder to the plan lineup can benefit plan sponsors, too:



**May help fulfill fiduciary duties.** This product broadens the lineup to include not just equity investment options, but also retirement income products, helping plan sponsors manage their fiduciary responsibility to provide a range of investment choices.



**Boost the bottom line.** On average, an employee who delays retirement costs a company anywhere between \$10,000 and \$50,000 a year.<sup>5</sup> Helping employees retire on time helps manage benefit costs and may boost the bottom line through decreased healthcare expenses and more engaged and productive employees.



**Maintain provider flexibility.** The guaranteed income purchase can remain in Principal Pension Builder, even if the employer decides to change service providers. Principal will continue to administer Principal Pension Builder annuities for those participants and provide Form 5500 services for that portion of the plan.

Principal Pension Builder allows for the purchase of a deferred income annuity available through the retirement plan to build a guaranteed income stream for life in retirement. There are other types of in-plan annuities, including a variable annuity with a guaranteed minimum withdrawal benefit (GMWB).

**Let's look at key comparison points:**

	Principal Pension Builder	Systematic withdrawals	GMWB
<b>Market exposure</b>	Not subject to market downturns, but may miss out on market growth. In return, provides a guaranteed, known future income stream.	Funds remain subject to market fluctuations. Income received depends on market performance; income is not guaranteed.	Guaranteed income amount depends on market performance, but generally will not fall below the guaranteed minimum withdrawal percentage of the original investment amount.
<b>Portability solution</b> (impact of participant termination or provider change)	Principal® will issue a deferred annuity certificate to the terminated participant (he or she can no longer make contributions). If the employer changes providers, there are only a few, static data points to communicate.	Funds in the plan are typically fully portable.	Multiple data points continue to change and must be communicated to the new provider on an ongoing basis. Terminated participants must liquidate and roll over to a retail GMWB product to continue to receive the guarantee.
<b>Fee structure</b>	Incorporates all expenses into the guaranteed income purchase.	No additional production fee, but some providers may charge for plan distributions.	Charges an additional asset-based fee to the account balance to cover the guarantee.
<b>Liquidity</b> (ability to move funds out of the product)	Can be liquidated at any time. If more than 90 days past purchase date, a surrender charge may be deducted from the transfer amount.	For most retirement plan products, funds can be liquidated at any time with no fee.	Participant forfeits the asset-based fee already paid for the guarantee; no other fee or penalty applies.

<sup>5</sup> Financialfinesse.com <https://www.financialfinesse.com/2016/03/17/employees-cant-retire/>

## Learn more about Principal Pension Builder.

Talk to your financial professional or your Principal representative today.

### More product details:

#### Purchase guidelines, requirements and surrender charges

- Participants can transfer up to 50 percent of the sum of total plan account balance minus outstanding loans and direct up to 50 percent of contributions to Principal Pension Builder.
- The minimum transfer amount is \$10 per investment transfer.
- The amount of monthly guaranteed income purchased varies based on current interest rates and age of the participant. Income amounts generally will be greater in high interest rate markets and at younger purchase ages.
- A participant's Principal Pension Builder balance cannot exceed \$2 million.
- The purchased income assumes a single life with 10-year certain period annuity form and an income payment start date of age 65 or the plan's normal retirement date, whichever is later. Purchases are based on unisex mortality rates.
- Participants can surrender a purchased amount for up to 90 days after the purchase at no charge; after 90 days, amounts can be transferred from Principal Pension Builder subject to a possible surrender charge.
- In order to access amounts invested in Principal Pension Builder for a loan or withdrawal, the participant must first transfer the desired amount to another investment option. A surrender charge can apply.<sup>7</sup>
- Principal Pension Builder is excluded from rebalancing.

#### Income start date election

- A participant's Principal Pension Builder balance must be greater than \$5,000 to receive monthly income payments. If the balance is \$5,000 or less at income start date, the participant will receive the present value of the guaranteed income payments. (This will never be less than the participant's balance in Principal Pension Builder.)
- The participant will be contacted to select an income start date at the earlier of reaching age 59 with separation of service, or 180 days prior to the plan's normal retirement date. They can start taking income as early as age 59½ with separation of service or as late as April 1 following the year in which he or she reaches age 70½.
- If the participant doesn't make an election, the income start date defaults to the later of age 65 or the plan's normal retirement date.
- If a participant elects an income start date other than the default, the guaranteed income amount will be adjusted up or down to reflect the new start date.
- Purchase of and investment transfers from Principal Pension Builder are not allowed within 60 days of the income start date.

<sup>7</sup> The surrender charge is equal to the difference, if any, of the transferred amount from Principal Pension Builder and the surrender value of that transfer. The surrender value is the lesser of the amount transferred or the present value of the associated guaranteed income payments as determined by the annuity contract and disclosed in the annuity purchase certificate. The surrender value will never be more than the amount transferred from Principal Pension Builder, and may be less if current interest rates are the same or higher than the interest rates in effect at the time of the original purchase. Any transfer from Principal Pension Builder will result in a 12-month restriction period during which investment transfers into the product will not be allowed. Contributions directed to Principal Pension Builder can continue.

## More product details:

### Annuity form options and election

- Before the income start date, the participant can choose the annuity payout form — including joint and survivor, period certain, cash refund and installment refund options — and cost of living adjustments (Consumer Price Index and fixed period).
- If the participant does not make an election, including providing marital status and spousal consent, income will be paid in the form of a 50 percent joint and survivor annuity, assuming the spouse is three years younger than the participant.
- The guaranteed income amount will be adjusted up or down to reflect the new form, if applicable.

### Death benefit

- If the participant dies before the income start date, his or her beneficiary will receive the participant's Principal Pension Builder balance (the amount of all contributions and transfers allocated to the option minus any previous distributions or surrenders, including applicable surrender charges).
- If the participant is married, the spouse may instead elect to receive the guaranteed income payments as an annuity based on his or her own age.
- If the participant dies after the income start date, the death benefit will depend on the decisions the participant made about Principal Pension Builder.

### Plan/trust requirements

We encourage plan sponsors to consult with their document providers to review their plan and trust documents and Principal Pension Builder product features for compatibility, including the following highlighted requirements. Plan documents prepared by Principal will meet these requirements.

#### Plan/Trust:

- Must not prohibit the purchase of an annuity contract as an allowable asset of the plan.
- Must permit a single sum distribution and not specifically prohibit distributions in kind.

#### Plan document:

- Must permit distributions at normal retirement date (as defined by the plan) prior to separation of service with the employer sponsoring the plan.
- Must permit a 180-day election period for the benefit event process.
- Must permit an immediate distribution upon separation of service.

### Revenue sharing and financial professional compensation

- Principal Pension Builder is a zero revenue sharing product.
- Financial professionals will be paid the same compensation schedule on Principal Pension Builder as other investment options in the plan. Compensation is paid until Principal Pension Builder is distributed to a participant (as a deferred annuity certificate or when payments begin at income start date).
- Financial professionals must have the normal licensing and broker-dealer selling agreements to sell our group annuity products (PCRP and FIA).



**The ability of Principal Life Insurance Company to pay the guarantee is based on the claims-paying ability of the general account and is subject to the terms of the contract.**

Principal Pension Builder<sup>SM</sup> is a deferred income annuity rider available through certain group annuity contracts with Principal Life Insurance Company, a member of the Principal Financial Group®, Des Moines Iowa 50392. Principal Pension Builder may not be available in all states.

Principal Pension Builder provides for the purchase of deferred income annuities that provide guaranteed income in retirement. Guaranteed income may change due to elections by the plan fiduciary or participant, such as changing the income start date or annuity form. Funds transferred and contributions used to purchase guaranteed income through Principal Pension Builder will no longer be subject to market gains or losses. In exchange, the participant is purchasing a guaranteed future income stream. In no instance shall the Income Start Date be earlier than your Normal Retirement Date unless you separate from service prior to the plan's Normal Retirement Date.

Monthly guaranteed income may change due to elections by the plan fiduciary or participant, such as changing the income start date or annuity form, or surrendering guaranteed income. As an annuity, Principal Pension Builder does not have an investment performance, a management fee or expense ratio; those are concepts unique to investment products.

If you transfer funds out of Principal Pension Builder, annuities and the corresponding guaranteed income purchased with those transferred funds will be surrendered. A surrender charge may apply to annuities that are surrendered more than 90 days from the date of purchase.

The estimated monthly income is based on current Principal Pension Builder annuity purchase rates. Principal Pension Builder purchase rates may change on business days when the market closes, which is 4 p.m., Eastern time. Quotes and purchases after 4 p.m. Eastern time will be based on new purchase rates in effect at that time.

This document is not a recommendation and is not intended to be taken as a recommendation. This material was prepared for general distribution and is not directed to a specific individual.

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