Principal Fixed Income Guaranteed Option (PFIGO)

Your questions answered.

1. What is the Principal Fixed Income Guaranteed Option?
A group annuity contract issued by Principal Life Insurance Company (Principal Life) to Principal Trust Company as custodian. The contract guarantees principal and a rate of interest that will be credited to participant accounts — it’s an obligation of Principal Life.

2. How are interest rates established on the product?
Periodically, new multi-year Guaranteed Interest Balances are established. A Composite Crediting Rate is calculated based on the asset-weighted average of the guaranteed interest rates for these Guaranteed Interest Balances. The Composite Crediting Rate is announced in advance and is reset every six months (on June 1 and Dec. 1). For more information on the rate setting process, take a look at the rate setting brochure.

3. How are participants notified of the interest rate?
About 30 days prior to the effective date, participants are notified of the interest rate that will be credited to their account (the Net Crediting Rate) via the fact sheet and the participant website.

4. Will interest rates ever be negative? Is there a minimum interest rate?
Interest rates will never be negative. The contract states that the Composite Crediting Rate will never be less than a minimum guaranteed rate. The minimum guaranteed rate will be consistent with insurance regulations and won’t be less than 1 percent or greater than 3 percent, depending on market conditions.

5. The interest rate is guaranteed. Does that mean there’s no market risk with this contract?
There are many different types of investment risks. One type of investment risk is market risk, which is the volatility risk of fluctuating returns due to conditions in the overall market. PFIGO guarantees principal and a rate of interest regardless of market conditions. The risk of market fluctuations is placed on the insurance company. There are other types of investment risk, including credit risk, which is the ability of the insurance company to make the guarantee.

6. Does the plan fiduciary need to sign a copy of the contract to add PFIGO to their lineup? How can a plan fiduciary obtain a copy of the contract?
No. A plan fiduciary doesn’t need to sign the contract. The contract is issued to Principal Trust Company as custodian and applied for by them. However, each plan fiduciary does need to sign a Direction to Trustee or Custodian form, directing Principal Trust Company to obtain interest in the contract for the plan. You can find a copy of the PFIGO contract on the plan sponsor website under My Documents. If you cannot find a copy there, contact your Principal® representative.

---

1 The Composite Crediting Rate is the rate guaranteed by the contract prior to any fees for administrative or recordkeeping services.

2 The Net Crediting Rate is the Composite Crediting Rate less the fee level selected by the plan sponsor to be deducted from the Composite Crediting Rate for administrative and recordkeeping services to the plan.
Does a surrender charge or market-value adjustment apply if a plan participant takes a distribution from the plan due to a benefit event?

No early withdrawal charges or surrender charges apply to participant distributions that are consistent with the terms of the contract. In addition, the contract doesn’t allow for market-value adjustments.

Does a surrender charge or market-value adjustment apply if a plan participant makes an investment transfer?

No early withdrawal charges, market-value adjustments or surrender charges apply to participant transfers into or out of the contract. Investment transfers to competing investment options are subject to an Equity Wash.

However, if we receive notice of an employer-level liquidation, participant transfer activity will be reviewed and a surrender charge may apply. See Question 9 for additional details.

What happens if the plan fiduciary decides to remove PFIGO from their plan’s lineup and move the assets to another investment option?

The plan will be subject to either a 12-month advance notice or a 5 percent surrender charge, whichever the employer chooses.

If the plan fiduciary provides a 12-month advance notice, and we find that the cumulative participant investment transfer percentage exceeds 20 percent of the plan’s interest in the contract, a 5 percent surrender charge will apply unless the plan fiduciary lowers the cumulative participant investment transfer percentage below 20 percent and delays the liquidation date. See the contract for additional details.

What are allowable participant withdrawals after a plan fiduciary removes PFIGO from the plan’s lineup?

Participants can continue to make deposits and withdrawals, including investment transfers, into or out of the contract until a blackout period is established. As discussed in Question 9, if the cumulative percentage of participant investment transfers exceeds 20 percent at any time during the 12 months before liquidation, a 5 percent surrender charge may apply. Benefit payments are not included in the calculation of the cumulative participant investment transfer percentage.

What if the plan fiduciary decides to move the plan assets to a new record keeper?

After the non-PFIGO (other investment option) assets move to the new service provider, there may be investment transfer restrictions if the new recordkeeper can’t ensure there wouldn’t be any transfers from PFIGO to a competing investment option. Benefit event payments will continue to be processed without restriction.

Is there a minimum total number of transfers required when determining the 20 percent cumulative percentage of participant transfers?

No. The 20 percent is based on a cumulative percentage of assets withdrawn, so the number of participants needed to exceed 20 percent varies from plan to plan. The total participants involved could be as few as one or two.

A cumulative participant investment transfer percentage is determined by the following steps. First, for each of the 12 months before the liquidation date, we subtract the participant investment transfers into the contract for the month from the participant investment transfers out of the contract for the month. Then, for each of the 12 months before the liquidation date, we divide that difference by the plan’s interest in the contract on the first day of the 13th month before the liquidation date. Then we sum the monthly transfer percentages to see if the sum exceeds 20 percent at any time during the 12-month period before the liquidation.