

# AN ANNUITY PROVIDER YOU CAN RELY ON

**THE PRINCIPAL FINANCIAL GROUP®**



# THE U.S. DEPARTMENT OF LABOR (DOL)

has issued guidelines to help fiduciaries select appropriate annuity providers (Interpretive Bulletin 95-1). The guidelines apply to deferred and immediate annuities purchased upon plan termination and upon a participant's separation from service. They do not address the purchase of group annuity contracts holding retirement funds as investments.\*

The DOL advises a plan fiduciary to conduct an objective, thorough and analytical search before selecting an annuity provider. The DOL urges a fiduciary to pay special attention to an annuity provider's creditworthiness and claims-paying ability. The DOL also notes a fiduciary cannot rely solely on information from insurance rating services (such as A.M. Best Company, Fitch, Moody's Investors Service and Standard & Poor's), but a plan fiduciary can examine ratings as part of a larger study of the annuity provider.

**THE DOL LISTS SOME MINIMUM FACTORS FOR A PLAN FIDUCIARY TO CONSIDER WHEN CHOOSING A PROVIDER, INCLUDING:**

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## **QUALITY AND DIVERSITY**

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## **SIZE OF THE INSURER**

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## **CAPITAL AND SURPLUS LEVELS**

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## **LINES OF BUSINESS AND EXPOSURE TO LIABILITY**

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## **CONTRACT STRUCTURE AND GUARANTEES**

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## **THE AVAILABILITY OF ADDITIONAL PROTECTION THROUGH STATE GUARANTY ASSOCIATIONS AND THE EXTENT OF THEIR GUARANTEES.**

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## **FINANCIAL STRENGTH**

\*Retirement funds include the guaranteed benefit policies issued by Principal Life Insurance Company and any other assets.

## QUALITY AND DIVERSITY

**THE FIRST GUIDELINE** requires fiduciaries to determine the quality and diversity of an annuity provider's investment portfolio.

Principal Life Insurance Company (Principal Life) invests in a wide range of asset types in the U.S. and abroad. We pay attention to the level of exposure to a particular geographic region. Our investment portfolio is diversified geographically and by investment type. Within our diverse portfolio, we do not force investments into specific asset types or geographic regions. We choose investments that we believe combine the best return with safety.

Diversification in our investment options further helps. Principal Life makes many small investments in quality organizations within different industries and geographic areas. Such diversification helps to minimize the impact of localized or single industry economic downturns on our investment performance.

### PRINCIPAL LIFE INSURANCE COMPANY DISTRIBUTION OF TOTAL INVESTED ASSETS

Statement Value as of December 31, 2015 (in millions of dollars)

Bonds	42,387	Real Estate, Home Office	389
Preferred Stocks	115	Real Estate, Held for Investment	5
Common Stocks	758	Real Estate, Held for Sale	1
Mortgage Loans Real Estate First Lien	10,787	Policy Loans	795
Other Than First Lien	458	Cash and Short-Term Investments	1,371
		Other Invested Assets	3,102
		Miscellaneous	247

**Total Invested Assets \$60,416**

### PRINCIPAL LIFE INSURANCE COMPANY LONG-TERM AND SHORT-TERM BONDS BY NAIC RATING

Statement Value as of December 31, 2015 (in millions of dollars)

NAIC RATING	\$ Amount	% of Total
1	27,995	64.6%
2	11,786	27.2%
3	2,708	6.2%
4	598	1.4%
5	208	0.5%
6	34	0.1%
<b>Total</b>	<b>\$43,329</b>	
<b>Total of Bonds rated 1-2</b>		<b>91.8%</b>
<b>Total of Bonds rated 3-6</b>		<b>8.2%</b>

## SIZE OF THE INSURER

**THE SECOND GUIDELINE** refers to the annuity provider's size. It states that the insurer's assets and growth should not come from one contract.

Principal Life has a diverse line of products and is among the leaders in the retirement services industry.<sup>1</sup> Our strategy is to seek controlled, profitable growth, and our long-term results show the success of this strategy.

To demonstrate the size of our organization, the following chart provides our statutory asset numbers as of December 31, 2015. Based on 2015 results, Principal Life is the 12th-largest life insurance company in the United States, according to December 31, 2015 statutory net admitted assets for US life insurers' single company ranking.\*

PRINCIPAL LIFE INSURANCE COMPANY TOTAL STATUTORY ASSETS	
Statement Value as of December 31, 2015 (in millions of dollars)	
Total General Account Assets	62,247
Total Separate Account Assets	95,528
<b>Total Admitted Assets</b>	<b>157,775</b>

## CAPITAL AND SURPLUS LEVELS

**A FIDUCIARY SHOULD ALSO** look at the annuity provider's total capital and surplus. These factors show the amount a provider has on hand to pay benefits.

Principal Life stands out among a handful of strong financial organizations in the U.S. Our customer safety margin is carefully planned to allow us to cover unexpected financial obligations.

The customer safety margin for Principal Life was \$4.5 billion at December 31, 2015. The ratio of customer safety margin to general account assets, a common measure of safety, was 7.2 percent.

\*SNL Financial LC, 2015

## LINES OF BUSINESS AND EXPOSURE TO LIABILITY

**THIS GUIDELINE REQUIRES FIDUCIARIES** to examine whether an annuity provider is spread too thin or has potential major liabilities from some of its business lines.

### THE PRINCIPAL FINANCIAL GROUP® HAS AFFILIATES WITH DIVERSE SERVICE AND PRODUCT LINES, INCLUDING:

Retirement savings and related investment products and services, including 401(k) and 403(b) plans, defined benefit pension plans, nonqualified executive benefit plans, and employee stock ownership plan services. Also, mutual funds, individual annuities and bank products.

Asset management services

Individual life insurance

Group dental, vision, life insurance and long-term, short-term and individual disability income insurance

Because of the number of different product lines, as well as the fact that the market primarily served by The Principal® is the small to medium size business marketplace, The Principal has exposure spread over many contracts, multiple products and numerous customers. This diversity helps balance our long-term ability to make payments from our general account.

## CONTRACT STRUCTURE AND GUARANTEES

The Principal Life general account backs its fixed annuities, in addition to the other products sold through the general account. Assets in the general account support liabilities of all classes of business, including life insurance and pension. These assets support our liabilities (including annuity contracts). On December 31, 2015, the Principal Life general account held approximately \$62 billion in total assets.

**THE AVAILABILITY OF ADDITIONAL PROTECTION THROUGH STATE GUARANTY ASSOCIATIONS AND THE EXTENT OF THEIR GUARANTEES.**

**THIS GUIDELINE SUGGESTS** that fiduciaries should seek the advice of a qualified, independent expert to help sort through all of the various guidelines.

Most states have guaranty benefits to help pay the claims of financially impaired insurance companies. State laws specify the lines of insurance covered by these funds and the dollar limits payable. There are many issues that determine the type and the extent of coverage available. It is advised that fiduciaries consult with their state insurance department for details of the available coverage for any policies that may be purchased.

A fiduciary may consider any other appropriate information. After conducting an appropriate search, the fiduciary may find that more than one annuity provider is able to offer the safest available annuity.

In addition to an evaluation of Principal Life's position relative to the DOL guidelines, we also provide information about our current ratings. These ratings can help illustrate the strength of our company.

A number of established rating firms specialize in assessing the performance of insurance companies. The firms evaluate an insurer's financial strength based on its business mix and market position, the strength of its management, its profitability, its asset quality and its level of capitalization, among other factors and metrics.



# FINANCIAL STRENGTH

**INSURANCE COMPANIES ARE ASSIGNED FINANCIAL STRENGTH RATINGS** by rating agencies based upon factors relevant to policyholders. Information about ratings provides both industry participants and insurance consumers meaningful insights on specific insurance companies.

Financial strength ratings are influenced by many factors, including operating and financial performance, asset quality, liquidity, asset/liability management, overall portfolio mix, financial leverage, risk exposures and operating leverage. Nationally recognized statistical rating organizations (NRSROs) publish financial strength ratings of U.S. life insurance companies that are indicators of an insurance company's ability to meet contractholder and policyholder obligations. A.M. Best Company, Inc., Fitch Ratings, Moody's Investors Service, and Standard & Poor's currently have stable outlooks assigned to the U.S. life insurance sector. The ratings agencies have indicated they expect gradually increasing interest rates will help stabilize earnings on spread business and rising equity markets will grow assets under management.

## CURRENT RATINGS FOR PRINCIPAL LIFE INSURANCE COMPANY AND PRINCIPAL NATIONAL LIFE INSURANCE COMPANY (AS OF JANUARY 2016)

A.M. Best Company	A+	Superior, the second-highest financial strength rating of A.M. Best's 16 rating levels
Fitch	AA-	Very strong, fourth-highest financial strength rating of 19 rating levels
Moody's Investors Service	A1	Good, the fifth-highest financial strength rating of Moody's 21 rating levels
Standard & Poor's Rating Group	A+	Strong, the fifth-highest financial strength of S&P's 24 rating levels



WE'LL GIVE YOU AN EDGE®

Principal Life Insurance Company, Des Moines, Iowa 50392-0001, [Principal.com](http://Principal.com)

<sup>1</sup> Based on number of defined contribution recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2014. Based on number of recordkeeping clients, PLANSPONSOR Deferred Compensation Plan Buyer's Guide, June 2014.

Third party financial strength ratings relate to Principal Life Insurance Company, the largest member company of the Principal Financial Group, and Principal National Life Insurance Company. 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. Ratings reflected are current as of January 2015. Financial strength ratings of Principal Life Insurance Company do not extend to separate accounts.

Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. Insurance products issued by Principal Life Insurance Company and Principal National Life Insurance Company. Mutual funds and other securities products offered through Princor Financial Services Corporation, 800-247-1737, member SIPC. Bank Products offered through Principal Bank, Member FDIC, Equal Housing Lender. Principal Life, Principal National, Princor and Principal Bank are members of the Principal Financial Group, Des Moines, IA 50392.

Mutual funds and all other securities products are not insured by the FDIC; are not obligations or deposits for Principal Bank nor guaranteed by Principal Bank; and are subject to investment risks, including possible loss of the principal invested.