Nonqualified deferred compensation plans

Investment and financing options for different needs
An industry leader in your corner

Our history speaks for itself. We’ve been providing nonqualified deferred compensation plans for more than 25 years, and have over 75 years of retirement plan experience. And we’re a global investment leader, too. Whether you’re personally invested in the markets, or you have a professional responsibility to help your business reach its potential, you want an investment manager who empowers you to reach your financial goals through strong portfolio growth.

- We have $668.6 billion in assets under management and serve 22.8 million customers worldwide.¹
- We’re ranked 227th on FORTUNE magazine’s list of the largest 500 corporations based on revenues, June 2017.
- We provide services to over 37,000 retirement plans with more than 4.7 million plan participants.¹

When you work with us, you benefit from the global investment management expertise of Principal®. We manage more than US$673.8 billion of assets, which includes over US$445.1 billion of assets managed by Principal Global Investors.

- We’re the No. 1 provider of deferred comp plans² and a leading provider of defined contribution plans³.
- We serve over 2,600 clients representing almost 63,800 participants through our nonqualified deferred compensation benefit plans.⁴
- We manage more than $6.3 billion in assets and $8.0 billion in plan liabilities.⁴

¹ PLANSPONSOR Defined Contribution Services Survey as of January 2018.
² Based on total number of Section 409A plans and nongovernmental 457 plans, PLANSPONSOR 2017 NQDCRecordkeeping Survey, June 2017.
³ Based on number of recordkeeping plans, PLANSPONSOR Recordkeeping Survey, June 2017.
⁴ As of June 30, 2018.
One size doesn’t fit all when it comes to picking your plan investment options

To provide you and your plan participants flexibility, our solution to investment management services provides an expansive investment platform. You have access to internally and externally managed investment options, including sub-advised options and name-brand mutual funds.

Most employers and their financial professionals select a broad range of investment options and allow their key employees to choose among multiple fund families and money managers. This large selection of investment options allows participants to choose investments to help meet their specific objectives and level of risk tolerance.

These investment options are valued daily with performance information and investment-option details, including a customized investment-option profile.

5 The term “investment management” may be referring to an investment advisor or sub-advisor of an underlying mutual fund.
Pick the investment option that’s right for you

Most of us need a little help when it comes to saving for retirement. If you’re like many, you may not have the time or interest in finding an appropriate asset allocation for your plan. We’ve got you and your plan participants covered with several options.

Investor Profile Quiz

For a more personal approach, plan participants can take a short investor profile quiz. This helps determine the investment option that most closely matches their attitude toward risk. The quiz score provides a recommended investor profile and matching reference investments.

The plan will include a variety of reference investment options. Each offers a different level of risk and potential return. This allows plan participants to make choices that complement their overall financial strategy.
Principal LifeTime Portfolios

These are target-date portfolios investing in underlying Principal Funds. The portfolios embrace a multi-asset class and multi-managed approach to cover a broad range of needs. Each Principal LifeTime portfolio is managed toward a particular target (retirement) date, or the approximate date an investor starts withdrawing money. Each portfolio follows three basic principles:

- Broad diversification across traditional and specialty asset classes
- Disciplined risk management at each stage of the investment process
- Professional investment managers representing a wide range of asset classes, investment styles and firms

Principal SAM Portfolios

The Strategic Asset Management (SAM) portfolios are target-risk portfolios. We offer five different portfolios designed to fit a wide range of risk tolerance and individual goals.

Using a multi-manager approach, each SAM Portfolio targets a specific asset allocation strategy. Our asset allocation experts within Principal Portfolio Strategies (a specialized investment boutique of Principal Global Investors), carefully select which investment options to invest through Principal Funds.

Pulling together many investment options into one portfolio creates varying levels of risk and return. Ranging from a portfolio mostly of equity investments to one primarily invested in fixed income investments, the SAM Portfolios can address a broad spectrum of investor risk tolerance.

About Principal Portfolio Strategies

Principal Portfolio Strategies, a specialized boutique of Principal Global Investors, engages exclusively in the creation of holistic, asset allocation solutions with the goal of delivering reliable, risk-adjusted investment outcomes. Principal Portfolio Strategies constructs multi-asset and/or multi-manager portfolios by combining strategies into flexible, cost-effective, customized solutions.
How will you finance your plan?

Potential financing strategies

When you set up a deferred comp plan for your key employees, you can informally finance the plan or leave it unfunded. The best method depends on your organization’s financial situation as well as how comfortable you and your key employees are with risk. We’ll work with you and your advisors to help you identify which of these financing strategies best suit your needs.

- **Company cash**
  - Future benefits are paid from the employer’s cash flow when needed.

- **Corporate owned taxable investments**
  - The organization invests in mutual funds consisting of Principal Funds as well as a variety of well-known mutual funds.

- **Corporate-owned life insurance**
  - The organization purchases life insurance to pay future obligations while providing tax-deferred earnings and tax-free distributions (subject to contract limitations/charges).

Or a combination of strategies creating a custom solution

Asset rebalancing

Since deferred comp plans are unfunded contractual obligations to plan participants, employers typically set aside assets to informally finance the future liability to pay the participants. With asset rebalancing, participant liabilities are adjusted to reflect plan activity. And organizations will typically try to mirror the investment performance with plan assets to avoid the risk of assets and liabilities being too different.

We offer automatic rebalancing, and it’s easy to manage and customize online through the plan sponsor website.

This is a hypothetical example only to help demonstrate the concept of rebalancing.
Plan financing trends

“For profit” companies typically take advantage of the tax benefits of life insurance, while due to the tax-exempt nature of “not for profit” organizations, they typically use taxable investments.

Stay on track with financing reviews

It’s important to periodically review your plan financing to see if it matches your original expectations. We’ll help you adapt your objectives to changing circumstances and assist you in realizing the full value of your plan.

Corporate-owned life insurance reviews

These reviews are designed to:

- Reinforce decisions made during your plan implementation.
- Ensure your objectives are current.
- Assist with cash flow planning to cover distributions.
- Determine if you have the proper amount of insurance to meet your objectives.

Mutual fund reviews

These reviews cover your current and historical tax experience and project other financing options to help you determine which method is right in the future.
Investment tools at your fingertips

Plan website

Accessing your plan and benefit information is easy via principal.com. Our service center provides up-to-date investment information such as performance results, daily NAVs and investment styles (by asset and liability for employers), as well as rebalancing capability for participants including scheduled rebalancing.
**Investment Data Reporting Tool (IDRT) and Retirement Plan and Investment Review (RPIR)**

The IDRT is a dynamic, customizable reporting tool that allows you to select various investment-related data. It consolidates multiple investment reports into one, easy-to-use process. Reports can be requested as stand-alone or as part of the RPIR, which also includes data about plan design, the economy and markets.

**Customized investment option profiles**

Get detailed information on investment options for all available funding options and for most investment options that Principal tracks. These online profiles are available to plan participants and plan sponsors and provide information like:

- Long-term returns
- Comparison by benchmarks and peer groupings
- Risk and return stats
- Morningstar category
- Operations information
- Portfolio details

**Fund fact sheets**

These are condensed, printable versions of the online investment option profiles. Plan participants find them helpful during enrollment to learn more about the funds available to them. They’re also used in client plan reviews to review fund options and evaluate other funds available.
We’re here to help

Your financial advisor can provide additional information about deferred comp plans and answer any questions you may have.

About Principal®

Principal helps people and companies around the world build, protect and advance their financial well-being through retirement, insurance and asset management solutions that fit their lives. Our employees are passionate about helping clients of all income and portfolio sizes achieve their goals — offering innovative ideas, investment expertise and real-life solutions to make financial progress possible. To find out more, visit us at principal.com.
The value of the investment option will fluctuate so that when redeemed, shares or units may be worth more or less than the original cost. Investing involves risk, including possible loss of principal. Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Asset allocation and diversification do not ensure a profit or protect against a loss. Additionally there is no guarantee this investment option will provide adequate income at or through retirement. Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Redemption fees and/or transfer restrictions may apply to certain transactions.

Before investing, carefully consider the investment option objectives, risks, charges and expenses. Contact a financial professional for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.

The subject matter in this communication is provided with the understanding that Principal is not rendering legal, accounting, or tax advice. You should consult with appropriate counsel or other advisors on all matters pertaining to legal, tax or accounting obligations and requirements.

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