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 composite crediting rate[1] that will be credited to account balances—it's an obligation of Principal Life.

2 How are interest rates established on the product?

A composite crediting rate is a distinct rate for each vintage available in the contract. Each composite crediting rate is based on a dollar-weighted average of underlying guarantees for the vintage. Underlying guarantees reflect current interest rates at the time they are opened. New underlying guarantees are opened for a specified amount and a targeted average maturity of 2-4 years. 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, review the rate setting brochure for the applicable vintage.

- PFIGO Vintage-Current rate setting brochure
- PFIGO Vintage-Primary 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 (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 a 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 0.15% or greater than 3%, depending on market conditions. The minimum guaranteed rate for guarantees in place prior to Dec. 30, 2022, is 1.55%. Please note the composite crediting rate may be greater than the minimum guaranteed rate.

5 The interest rate is guaranteed.[2] 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 solvency risk, which is the ability of the insurance company to make the guarantee.

6 Does the authorized plan representative need to sign a copy of the contract to add PFIGO to the plan's lineup? How can an authorized plan representative obtain a copy of the contract?

No. An authorized plan representative doesn't need to sign the contract. The contract is issued to Principal Trust Company as custodian and applied for by them. However, each authorized plan representative of a single employer plan or Pooled Employer Plan does need to sign a Direction to Trustee or Custodian form, directing Principal Trust Company to obtain an interest in the contract. You can find a copy of the PFIGO contract on the secure employer website. If you cannot find a copy there, contact your Principal® representative.

7 Does a surrender charge or market-value adjustment apply if a participant takes a distribution from the plan due to a benefit event?

Benefit payments to participants for plan benefit events, including retirement, termination of employment, disability, plan termination, death, loans, and withdrawals, as allowed by the plan, are made without any surrender charge. In addition, the contract doesn't allow for market-value adjustments.

[1] The composite crediting rate is the rate guaranteed by the contract prior to any fees for administrative or recordkeeping services.

[2] Nonqualified plan sponsors may include PFIGO as an available investment option to reference when measuring a nonqualified participant's benefits, as described in certain nonqualified plan materials. The guarantee of principal and interest through the group annuity contract is not a representation that a nonqualified plan sponsor holds any assets for paying these benefits.

8 Does a surrender charge or market-value adjustment apply if a participant initiates an investment transfer request out of PFIGO?

Investment transfers initiated by a participant request out of the PFIGO are made without a surrender charge. Investment transfers to competing investment options are subject to an equity wash.

However, charges and investment transfer restrictions may result from certain employer or plan sponsor actions. See question 9 for additional details.

9 What happens if the authorized plan representative decides to remove PFIGO from the plan's lineup and move the assets to another investment option?

Principal must receive notice from an authorized plan representative to terminate the Plan's Interest, Plan Sponsor's Interest (in the case of a nonqualified deferred compensation plan), or Participating Employer's Interest[3] in the Principal® Fixed Income Guaranteed Option ("Party's Interest"). Termination of a Party's Interest is subject to either a 12-month advance notice or a 5% surrender charge calculated using the 12-month average value of the Party's Interest in the contract.[4]

If the plan is moving to a recordkeeper who cannot enforce the equity wash on all direct and indirect investment transfers as described in the contract and a delayed liquidation subject to 12 months' notice has been selected, we will notify the plan sponsor or participating employer if, during the 12 months prior to the liquidation date, we find that the cumulative investment transfer amount exceeds $50,000 and the cumulative investment transfer percentage exceeds 25%.[5]

In this scenario, if 90 days after our communication, the investment transfer thresholds are still exceeded, a surrender charge equal to 5% of the cumulative investment transfer amount will be billed to the plan sponsor or participating employer.

See the contract for additional details.

10 Is there a minimum number of transfers required when determining the 25% cumulative transfer percentage and $50,000 cumulative transfer amount?

No. The 25% cumulative percentage and $50,000 cumulative amount are based on assets transferred, so the number of requested transfers needed to exceed the defined thresholds will vary. The total requested transfers involved could be as few as one or two.

11 What are allowable participant withdrawals after an authorized plan representative removes PFIGO from the lineup?

Deposits and withdrawals can continue to be made, including investment transfers, into or out of PFIGO until a blackout period is established. As discussed in question 9, the thresholds are defined at the time of our review during the 12 months before liquidation, a 5% surrender charge may apply.[3] Benefit payments are not included in the calculation of the cumulative investment transfer percentage or amount.

12 Can a plan maintain its interest in PFIGO when moving to a new recordkeeper?

No. PFIGO is only available on the Principal recordkeeping platform. 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.

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[3] The net crediting rate is the composite crediting rate less the rate level service fee selected by the authorized plan representative as part of the overall fee arrangement that is paid for services from Principal Life as a provider of administrative and recordkeeping services to the plan.

[4] A cumulative transfer amount and cumulative transfer percentage are determined by the following steps:

1. For each of the 12 months preceding the 12-month liquidation date, we subtract any transfers, contributions, or rollovers into the Party's Interest for the month from the investment transfers out of the Party's Interest for the applicable month.
2. For each of the 12 months preceding the liquidation date, we divide the difference in step 1 by the Party's Interest on the first day of the 13th month preceding the liquidation date.

We add together each of the results of step 1 to calculate the cumulative transfer amount, and we add together each of the results of step 2 to calculate the cumulative transfer percentage. If the sum of the monthly transfer percentages exceeds 25% and the sum of the monthly transfer amounts exceeds $50,000 during the 12-month period prior to the liquidation date on the dates of our review a surrender charge may apply.

[5] An interest in PFIGO may be obtained by a nonqualified plan sponsor to use that interest as a corporate asset to aid in financing liabilities to nonqualified participants. Participants in a nonqualified plan do not own an interest in the contract, although a liability owed to a nonqualified participant may be tracked by an interest attributed to such nonqualified participant. All limitations on transfers and withdrawals, including surrender charges and early termination charges, apply to the plan sponsor's interest in the contract with respect to a nonqualified plan.

Participating Employer's Interest applies where the retirement plan that has an interest in PFIGO is a Pooled Employer Plan or a Multiple Employer Plan.

This document is intended to be educational in nature 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.

Guarantees are supported by the general account of Principal Life, but participants do not participate in the investment experience or performance of the general account.

Rates for products are competitive but dependent upon market conditions, certain products may seem more favorable.

Principal Fixed Income Guaranteed Option is not FDIC insured and is not an obligation or deposit for any bank nor guaranteed by a bank. The guarantees provided with regard to the Principal Fixed Income Guaranteed Option are supported by the general account of Principal Life.

Principal Fixed Income Guaranteed Option is the Group Annuity Contract—Custodial Guaranteed Interest Contract available through Principal Life Insurance Company, a member of the Principal Financial Group®, Des Moines, Iowa, 50392.

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Principal Trust Company® is a trade name of Delaware Charter Guarantee & Trust Company, a member company of the Principal Financial Group.