Safeguarding your retirement savings

Know the precautions in place to help you through financial uncertainty.

Planning for retirement is no easy task — especially when you consider how changes in the market can affect the value of your investments. And while you may be familiar with the risks and rewards associated with your own investments, have you ever wondered how market fluctuations might affect your employer? Or what about your employer's financial services company?

Most organizations are able to get over financial hurdles. But if they don't, there are precautions in place to help.

Let's dig deeper into the checks in place to help safeguard savings through financial difficulties.

What happens if your employer is affected?

While funds are subject to market fluctuations, it's assuring to know that neither your employer nor your employer's creditors can touch accounts held for your benefit under a defined contribution (DC) (i.e., the employer's 401(k) or 403(b) plan) or defined benefit (DB) plan if your employer experiences financial difficulties.

Take a look at a few of the laws and organizations that help safeguard savings:

The Internal Revenue Code* has requirements in place to safeguard money under a DC and DB plan. Some of the requirements are listed below:

- Retirement plan funds must be held apart from the employer's assets and control.
- Funds must also be held for the exclusive benefit of plan participants and their beneficiaries.

*Similar requirements are found in ERISA.

The Employee Retirement Income Security Act (ERISA) has similar requirements that apply to many qualified plans established by businesses.

- ERISA was designed to protect employees' retirement benefits and the Department of Labor ensures that ERISA requirements are met.
- Funds are not held by your employer; therefore they will not be subject to unexpected financial difficulties your employer may face.

The Pension Benefit Guaranty Corporation (PBGC) guarantees the accrued benefits under most nongovernmental defined benefit plans, subject to some limitations.

- Generally, participants in a defined benefit plan that's covered by the PBGC may be confident that they won't lose their benefit.
- You can find more details about the program at **pbgc.gov.**

What happens if your employer's financial services company is affected?

Precautions are in place in case the company that provides investment and other services for your employer's retirement plan experiences financial difficulties. These precautions are based on situations specific to the investment options available in the plan.

Let's take a look at a few examples.

1

Situation: Your employer's retirement plan offers insurance company separate accounts as investment options.

Precaution: The assets of those accounts are separate from all other assets of the insurance company.

If the insurance company experiences financial problems, the assets of the separate accounts can't be used to pay the claims of the insurer's creditors.

2

Situation: Your employer's retirement plan offers insurance company general-account-backed products.

Precaution: The guaranteed interest portion of a group annuity contract is supported by the life insurance company's general account. For instance, a plan may offer a guaranteed interest contract.

3

Situation: Your employer's retirement plan offers mutual funds as an investment option.

Precaution: The shares of the mutual fund belonging to the plan will be held by a trustee or custodian and can't be reached by a creditor.

The assets of the mutual funds are held by a mutual custodian or similar arrangement, and they can't be claimed by a creditor of the company that sponsored the mutual fund. As a result, the value of the account is safe from creditors but still subject to market changes.

4

Situation: Your employer's retirement plan offers securities, including employer securities, as an investment option.

Precaution: The securities will be held by a trustee or custodian, so they're isolated from financial problems of companies that provide financial and other services to the plan.

Securities are still subject to market changes and can also be affected by the financial problems, including bankruptcy, of the company issuing the employer stock.

Two agencies defending your savings:

Securities Investor Protection Corporation (SIPC)
The SIPC steps in when a brokerage firm closes due to bankruptcy or other financial difficulties and customer assets are missing. Within certain limits, the SIPC works to return customers' cash, stock and other securities.

Federal Deposit Insurance Corporation (FDIC)
FDIC insurance covers bank deposits up to $250,000 per depositor per insured institution for each account ownership category.

The FDIC doesn't cover decreased market values due to fluctuations on these investment options:

- Mutual funds
- Annuities
- Life insurance policies
- Stocks and bonds
- Employer securities
- Separate accounts

What might you do to save for retirement?

Try focusing on the long term.
Even the worst market downturns are often followed by a significant recovery[1]. While the market has plenty of ups and downs, a long-term focus may help ride them out.

Diversifying your investments.
Diversification can help lessen the effects of short-term market swings more than if you invested in a single asset class. Of course, diversification doesn't guarantee a profit or protect against a loss.

Knowing your goals and risk tolerance.
Review your investment mix at least once a year or as significant events occur. Make sure your investments match both your comfort level for risk and how long you have until retirement. If you'd like some extra help, take our investor profile quiz at principal.com/InvestorProfileQuiz.

Questions about your retirement funds? We can help.

Call us at **800.547.7754** to talk to a retirement specialist.

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[1] S&P 500 annual returns as of December 31, 2006 to 2015. **https://ycharts.com/indicators/sandp_500_total_return_annual**

[2] 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; S&P Global Ratings — "A+" Strong – fifth-highest of 20 rating levels; A.M. Best Company — "A+" Superior – second-highest of 13 rating levels; Moody's Investors Service — "A1" Good — fifth-highest of 21 rating levels. Ratings current as of July 2018. 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.

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