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Americans Aren't Buying It: Notable Increased Financial Responsibility Trumps Consumer Spending

Americans Reevaluate Their Financial Strategy, Keep Long-Term Future in Sight

Des Moines, Iowa — New research released from the Principal Financial Well-Being IndexSM indicates that Americans are taking action on their personal financial well-being by spending less and focusing more on their long-term financial future.

Americans are demonstrating more discipline when it comes to discretionary spending, as only 5 percent of retirees and 10 percent of workers were moved by special incentives and sales offered by retailers to purchase items they “do not need.” And as financial concerns mount, significantly more workers (73 percent, up from 66 percent) and retirees (66 percent, up from 59 percent) compared with the fourth quarter 2008 reduced their overall spending during the past two months, according to the Index.

The Principal Financial Well-Being Index, which surveys both American workers at growing businesses with 10 to 1,000 employees and retired Americans, is released quarterly by the Principal Financial Group[®] and commissioned by Harris Interactive[®].

“The American people get it — we’re experiencing some of the worst economic conditions of our lifetime. Fear of the unknown has ushered in an era of personal responsibility and discipline,” said Dan Houston, president of Retirement and Investor Services at The Principal[®]. “The decline in spending represents consumers willing to make tough choices. Americans have pointed to specific conditions that would trigger discretionary spending; however the economy has yet to yield in making them comfortable enough to do so.”

Stimulating the Economy — What Will It Take?

When it comes to fueling the economy, Americans provided insight into what would trigger them to spend more. Nearly half of workers (43 percent) and more than one-third of

retirees (35 percent) said that a major personal tax cut would get them to spend more. Another 40 percent of retirees and 35 percent of workers indicated a significant rise in the stock market would do it, while 23 percent of retirees and one-quarter of workers pointed to lower interest rates. One-quarter of both groups said that lower unemployment rates would encourage them to spend more.

In It for the Long Haul — Looking to the Future

Recent market volatility has caused about half of workers (49 percent) to review their financial strategies. The Index also revealed growing concern among Americans regarding their ability to save for retirement (66 percent, up from 60 percent a year ago), which appears to have encouraged them to take action and better prepare. Less than one-quarter (20 percent) compared with last year (26 percent) indicated they have not yet planned for retirement. Furthermore, 14 percent of workers compared with last quarter (11 percent) indicated they have actually increased the amount they are saving toward retirement.

Contrary to historical behavior, more than half of workers (58 percent) are actively engaged in regularly or constantly checking the status of their retirement accounts. The Index shows that among those with retirement savings, nearly three-fourths (73 percent) are either saving the same amount or have increased the amount they are saving toward retirement, while 23 percent (compared with 14 percent during fourth quarter 2008) have moved from volatile to more stable investments over the past six months.

“Unfortunately, it took a financial crisis like this one to see real behavioral change among American workers who are spending less and reevaluating their commitment to financial security,” said Houston. “They are making short-term sacrifices while not losing sight of the long-term financial stability. Seeking help from a financial professional will help Americans modify their savings strategy during this economic slowdown.”

Other Key Findings:

- § **Job Security** — More than two-thirds of workers (67 percent) expressed concern over their own personal job security. To prepare for the worst-case-scenario, they are taking the following actions:
- 43 percent have cut spending on miscellaneous items (e.g., eating out, takeout coffee, entertainment, consumer purchases).
 - 23 percent have tried to save more each month.
 - 19 percent have cut fixed monthly expenses (e.g., gym membership, media subscriptions, cable TV).

- § **Taking a Second Job** — Workers have, or have considered, working another job to make ends meet given the slowing economy and rising prices:
- 9 percent have taken out a second job (up from eight percent during fourth quarter 2008).
 - More than one-quarter (27 percent) have not taken out a second job but are considering it (down from 36 percent last quarter).
 - Nearly two-thirds (65 percent) have not taken out a second job and are not considering it (up from 55 percent last quarter).
- § **Employer Raises** — Workers' expectations for receiving a raise in 2009 are mixed:
- Only 12 percent of workers have already received a raise from their employer (down from 16 percent during first quarter 2007).
 - More than one-third of workers (35 percent) anticipate a raise from their employer this year (down significantly from 49 percent during first quarter 2007).
 - 43 percent of workers do not anticipate a raise from their employer this year (up significantly from 23 percent during first quarter 2007).
- § **Required Minimum Distribution** — The Internal Revenue Service requires those with 401(k) or individual retirement accounts to begin withdrawing from those accounts once they reach the age of 70½-years-old. This requirement has been temporarily suspended for 2009 to help retirees better manage their accounts.
- More than half of retirees (55 percent) were not aware that Congress suspended this requirement for 2009.
 - 10 percent indicated they will take full distribution in 2009.
 - 6 percent said they will take distribution but less than their full amount in 2009.
 - 13 percent indicated they will not take any distribution in 2009.
 - Nearly two-thirds (59 percent) said this rule does not yet apply to them, as they have not reached 70½-years-old.

See the full report and past results at www.principal.com/wellbeing.

Methodology

This Principal Financial Well-Being IndexSM survey was conducted online within the United States by Harris Interactive on behalf of the Principal Financial Group[®] between January 26, 2009 and February 9, 2009 among 1,155 employees and 540 retirees. Results were weighted as needed for age by gender, education, race/ethnicity, education, region and household income. Propensity score weighting was also used to adjust for respondents' propensity to be online. No estimates of theoretical sampling error can be calculated; a full methodology is available.

This is one in a series of quarterly studies to identify and track changes in the workplace of small and midsize (growing) businesses. The first Principal Financial Well-Being IndexSM survey was conducted in the United States in 2000.

About the Principal Financial Group

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² As of December 31, 2008