

PRINCIPAL FINANCIAL GROUP INC
Form DEF 14A
April 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☐

Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
- ☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☐ Definitive Proxy Statement
- ☐ Definitive Additional Materials
- ☐ Soliciting Material Pursuant to §240.14a-12

PRINCIPAL FINANCIAL GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
- ☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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(1) Amount Previously Paid:

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April 6, 2010

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Principal Financial Group, Inc., to be held on Tuesday, May 18, 2010, at 9:00 a.m., local time, at 711 High Street, Des Moines, Iowa.

We are taking advantage of Securities and Exchange Commission rules that allow companies to provide proxy materials to their shareholders on the Internet. These rules allow us to provide our shareholders with the information they need, while lowering the cost of the delivery of the materials and reducing the environmental impact of printing and mailing paper copies.

The notice of annual meeting and proxy statement accompany this letter and provide an outline of the business to be conducted at the meeting. Also, I will report on the progress of the Company during the past year and answer shareholder questions.

The Company encourages you to read this proxy statement and vote your shares. You do not need to attend the annual meeting to vote. You may complete, date and sign a proxy or voting instruction card and return it in the envelope provided, or vote by using the telephone or the Internet. Thank you for acting promptly.

Sincerely,

LARRY D. ZIMPLEMAN

Chairman, President and Chief Executive Officer

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PRINCIPAL FINANCIAL GROUP, INC.
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
May 18, 2010

The annual meeting of shareholders of Principal Financial Group, Inc. (the "Company") will be held at 711 High Street, Des Moines, Iowa, on Tuesday, May 18, 2010, at 9:00 a.m., local time. At the meeting, shareholders will act on the following matters:

1. The election of four Class III Directors;
2. The approval of the Principal Financial Group, Inc. 2010 Stock Incentive Plan;
3. The ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2010; and
4. Such other matters as may properly come before the meeting.

These items are fully described in the proxy statement, which is part of this notice. The Company has not received notice of other matters that may be properly presented at the annual meeting.

Only shareholders of record at the close of business on March 22, 2010, are entitled to vote at the meeting. It is important that your shares be represented and voted at the meeting. Whether or not you plan to attend the meeting, please vote in one of the following ways:

By telephone: call the toll-free telephone number shown on the proxy or voting instruction card or the instructions in the email message that notified you of the availability of the proxy materials;

Through the Internet: visit the website noted below and in the notice of Internet availability of proxy materials shareholders received by mail, or on the proxy or voting instruction card, or in the instructions in the email message that notified you of the availability of the proxy materials; or

Complete, sign and promptly return a proxy or voting instruction card in the postage-paid envelope provided.

Shareholders will need to register at the meeting and present photo identification to attend the meeting. If your shares are not registered in your name (for example, you hold the shares through an account with your stockbroker), you will need to bring proof of your ownership of those shares to the meeting in order to register. You should ask the broker, bank or other institution that holds your shares to provide you with either a copy of an account statement or a letter that shows your ownership of Principal Financial Group, Inc. common stock on March 22, 2010. Please bring that documentation to the meeting to register.

By Order of the Board of Directors

JOYCE N. HOFFMAN

Senior Vice President and Corporate Secretary

April 6, 2010

Important Notice Regarding Availability of Proxy Materials for the Shareholder Meeting to be held on May 18, 2010. The 2009 Annual Report, 2010 Proxy Statement and other proxy materials are available at www.investorvote.com. Your vote is important! Please take a moment to vote by Internet, telephone or proxy card as explained in the *How Do I Vote* sections of this document.

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PROXY STATEMENT

PRINCIPAL FINANCIAL GROUP, INC.

**711 HIGH STREET
DES MOINES, IOWA 50392-0100**

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Why didn't I receive a copy of the paper proxy materials?

Securities and Exchange Commission ("SEC") rules allow companies to deliver a notice of Internet availability of proxy materials to shareholders and provide Internet access to those proxy materials. Shareholders may obtain paper copies of the proxy materials free of charge by following the instructions provided in the notice of Internet availability of proxy materials.

Why did I receive notice of and access to this proxy statement?

The Board of Directors ("Board") of Principal Financial Group, Inc. ("Company") is soliciting proxies to be voted at the annual meeting of shareholders to be held on May 18, 2010, at 9:00 a.m., local time, at 711 High Street, Des Moines, Iowa, and at any adjournment or postponement of the meeting ("Annual Meeting"). When the Board asks for your proxy, it must send or provide you access to proxy materials that contain information required by law.

What is a proxy?

It is your legal designation of another person to vote the stock you own. The other person is called a proxy. When you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. The Company has designated three of the Company's officers to act as proxies for the 2010 Annual Meeting: Joyce N. Hoffman, Senior Vice President and Corporate Secretary; Terrance J. Lillis, Senior Vice President and Chief Financial Officer; and Karen E. Shaff, Executive Vice President and General Counsel.

What will the shareholders vote on at the Annual Meeting?

Election of four Directors for three year terms;

Approval of the Principal Financial Group, Inc. 2010 Stock Incentive Plan ("2010 Stock Incentive Plan"); and

Ratification of the appointment of independent auditors.

Will there be any other items of business on the agenda?

The Company does not expect any other items of business because the deadline for shareholder proposals and nominations has passed. However, if any other matter should properly come before the meeting, the people authorized by proxy will vote according to their best judgment.

Who can vote at the Annual Meeting?

Shareholders as of the close of business on March 22, 2010, ("Record Date") can vote at the Annual Meeting.

How many votes do I have?

You will have one vote for every share of the Common Stock of Principal Financial Group, Inc. ("Common Stock") you owned on the Record Date.

What constitutes a quorum?

One-third of the outstanding shares of Common Stock as of the Record Date. On the Record Date, there were 319,654,131 shares of Common Stock issued and outstanding. A quorum must be present, in person or by proxy, before any action can be taken at the Annual Meeting, except an action to adjourn the meeting.

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How many votes are required for the approval of each item?

Each nominee for Director will be elected if the votes cast for the nominee exceed those cast against the nominee. Directors are elected by the majority of votes cast in uncontested Director elections.

The 2010 Stock Incentive Plan will be approved if the votes cast for the proposal exceed those cast against the proposal.

The appointment of the independent auditor will be ratified if the votes cast for the proposal exceed those cast against the proposal.

Abstentions and broker non-votes will be treated as being present at the meeting for the purpose of determining a quorum but will not be counted as votes.

What are Broker Non-votes?

If your shares are held in a brokerage account, your broker will ask you how you want your shares to be voted. If you give your broker directions, your shares will be voted as you direct. If you do not give directions, the broker may vote your shares on routine items of business, but not on non-routine items. Proxies that are returned by brokers because they did not receive directions on how to vote on non-routine items are called "broker non-votes."

How do I vote by proxy?

Shareholders of record may vote by mail, by telephone or through the Internet. When using these methods, you may vote "for," "against" or "abstain" from voting for each of the Director nominees and for each of the other proposals.

By Mail. Sign and date each proxy or voting instruction card you receive and return it in the prepaid envelope. Sign your name exactly as it appears on the proxy. If you are signing as a representative (for example, as an attorney-in-fact, executor, administrator, guardian, trustee or an officer or agent of a corporation or partnership), indicate your name and your title or capacity. If the stock is held in custody for a minor (for example, under the Uniform Transfers to Minors Act), the custodian should sign, not the minor. If the stock is held in joint ownership, one owner may sign on behalf of all owners.

By Telephone. Follow the instructions on the proxy or voting instruction card or the instructions in the email message that notified you of the availability of the proxy materials. Voting by telephone has the same effect as voting by mail. If you vote by telephone, do not return your proxy or voting instruction card. Telephone voting will be available until 1:00 a.m., Central Time, on May 18, 2010.

Through the Internet. You may vote on line at www.investorvote.com. Follow the instructions provided in the notice of Internet availability of proxy materials or on the proxy or voting instruction card. Voting through the Internet has the same effect as voting by mail. If you vote through the Internet, do not return your proxy or voting instruction card. Internet voting will be available until 1:00 a.m., Central Time, on May 18, 2010.

How do I vote shares that are held by my broker?

If you own shares held by a broker, you may direct your broker or other nominee to vote your shares by following the instructions that your broker provides to you. Most brokers offer voting by mail, telephone and through the Internet.

How do I vote in person?

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If you are going to attend the Annual Meeting, you may vote your shares in person. However, we encourage you to vote in advance of the meeting by mail, telephone or through the Internet even if you plan to attend the meeting.

How do I vote my shares held in the Company's 401(k) plan?

You can vote your shares held in the Company's 401(k) plan by telling the trustees of the plan how you want them to vote your shares. Follow the instructions on the voting instruction card or the instructions in the email message that notified you of the availability of the proxy materials. The trustees vote shares for which voting instructions are not received in their discretion.

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How are shares held in the Demutualization separate account voted?

The Company became a public company on October 26, 2001, when Principal Mutual Holding Company converted from a mutual insurance holding company to a stock company (the "Demutualization") and the initial public offering of shares of the Company's Common Stock was completed.

In connection with the Demutualization, the Company issued Common Stock to Principal Life Insurance Company ("Principal Life"), and Principal Life allocated this Common Stock to a separate account that was established to fund policy credits received as Demutualization compensation by certain employee benefit plans that owned group annuity contracts. Although Principal Life will vote these shares, the plans give Principal Life voting directions. A plan may give voting directions by following the instructions on the voting instruction card or the instructions in the message that notified you of the availability of proxy materials. Principal Life will vote the shares as to which it received no direction in the same manner, proportionally, as the shares in the Demutualization separate account for which it has received instructions.

Who counts the votes?

Votes will be tabulated by Computershare Investor Services, LLC.

What happens if I do not vote on an issue when returning my proxy?

You should specify your choice on each issue on the proxy or voting instruction card. If no specific instructions are given, proxies that are signed and returned will be voted as the Board of Directors recommends: "For" the election of all Director nominees, "For" the 2010 Stock Incentive Plan and "For" the ratification of Ernst & Young LLP as independent auditors.

What should I do if I want to attend the Annual Meeting?

Please bring photo identification and evidence of your ownership of Common Stock as of March 22, 2010. The notice of Internet availability of proxy materials you received in the mail, a letter from your broker or bank or a photocopy of a current account statement will be accepted as evidence of ownership.

How do I contact the Board?

The Company has a process for shareholders and all other interested parties to send communications to the Board through the Presiding Director. You may contact the Presiding Director of the Board through the Investor Relations section of the Company's website at www.principal.com, or by writing to:

Presiding Director, c/o Joyce N. Hoffman, Senior Vice President and Corporate Secretary
Principal Financial Group
Des Moines, Iowa 50392-0300

All emails and letters received will be categorized and processed by the Corporate Secretary and then forwarded to the Company's Presiding Director.

How do I submit a shareholder proposal for the 2011 Annual Meeting?

The Company's next annual meeting is scheduled for May 17, 2011. In order to have a shareholder proposal considered for inclusion for the 2011 annual meeting, it must be received by December 7, 2010. In addition, a shareholder proposal may not be presented at the 2011 annual meeting and no one may be nominated for election to the Board by a shareholder at that meeting unless the Company receives notice of the proposal or nomination between January 18, 2011 and February 17, 2011. Proposals should be addressed to the Corporate Secretary. Your notice must comply with certain other requirements set forth in the Company's By-Laws, which are on the Company's website, www.principal.com.

What is "householding?"

We have adopted a procedure known as "householding," in which we send shareholders of record at the same address only one copy of the proxy materials unless we receive instructions from a shareholder requesting receipt of separate copies of these materials.

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If you share the same address as multiple shareholders and would like the Company to send only one copy of future proxy materials, please contact Computershare Investor Services, LLC at 866-781-1368, or write to it at P.O. Box 43078, Providence, RI 02940-3078.

Where can I receive more information about the Company?

We file reports and other information with the SEC. This information is available on the Company's website at www.principal.com and at the Internet site maintained by the SEC at www.sec.gov. You may also contact the SEC at 1-800-SEC-0330. The Board committee charters, the Company's corporate governance guidelines, and the Corporate Code of Ethics are also available on the Company's website, www.principal.com.

The Board urges you to exercise your right to vote by using the Internet or telephone or by returning the proxy or voting instruction card.

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PROPOSAL ONE ELECTION OF DIRECTORS

The Board of Directors recommends that shareholders vote "For" all the nominees for election at the Annual Meeting.

The Board is divided into three classes with each class having a three year term.

Nominees for Class III Directors Whose Terms Expire in 2013. All of the nominees are currently Directors of the Company.

Michael T. Dan, age 59, has been a Director of the Company and Principal Life since 2006. He has been Chair of the Human Resources Committee since February 24, 2010, and a member of the Committee since 2006, and has been Chair of the Strategic Issues Committee since January 1, 2010.

Mr. Dan has been Chairman, President and Chief Executive Officer of The Brink's Company, a global provider of secure transportation and cash management services, since 1999. The Brink's Company has 56,900 employees worldwide and operations in over 50 countries, with \$3.1 billion in revenues in 2009. Prior to joining Brinks, Mr. Dan served as president of Armored Vehicle Builder, Inc. In addition to leading and being responsible for financial management of Brinks, Mr. Dan has executive-level experience in international operations, risk management, strategic planning, brand management, executive compensation, customer service and marketing. He is the Chairman of the Business Roundtable's Partnership for Disaster Response. The Business Roundtable, an association of chief executive officers of leading U. S. companies, works through this partnership with companies, relief agencies, the federal government and others to strengthen how the business community responds to disasters.

He studied business and accounting at Morton College in Cicero, Illinois, and completed the advanced management program at Harvard Business School.

C. Daniel Gelatt, age 62, has been a Director of Principal Life since 1988 and a Director of the Company since 2001. He has been a member of the Audit Committee since 2007. He has also served as Presiding Director and Alternate Presiding Director, Chair of the Human Resources Committee and Chair of the Strategic Issues Committee, and as a member of the Executive Committee.

Dr. Gelatt has been President of NMT Corporation, a computer software and microfilm service business since 1987. He was an Assistant Professor from 1975 - 1979 in the Physics Department at Harvard University, where he earned his Ph.D., and was a research manager at the IBM T. J. Watson Research Center before joining the Gelatt companies in 1982. In addition to leading and having financial responsibility for NMT and other Gelatt privately-owned companies, he has an extensive background in technology, mathematics and physics. He earned his bachelor's and master's degrees at the University of Wisconsin and his MA and Ph.D. at Harvard University.

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Sandra L. Helton, age 60, has been a Director of the Company and of Principal Life since 2001. She has been Chair of the Finance Committee since January 1, 2010, and has been a member of the Audit Committee since 2001. Ms. Helton also served on the Company's Strategic Issues Committee from 2001 through 2009. Ms. Helton was Executive Vice President and Chief Financial Officer Telephone and Data Systems, Inc. ("TDS"), a diversified telecommunications organization that includes United States Cellular Corporation, from 1998 through 2006. As of December 31, 2006, TDS served 7 million customers/units in 36 states with annual revenues of \$4.5 billion. In her role, Ms. Helton had responsibility for the Finance, Information Technology, Strategic Planning, Corporate Communications, and Corporate Secretary functions. Prior to joining TDS, Ms. Helton spent 26 years with Corning Incorporated, where she held engineering, strategy and finance positions, including Senior Vice President and Treasurer from 1991-1997. She also served as Vice President and Corporate Controller of Compaq Computer Corporation from 1997-1998. Ms. Helton has global executive-level experience in corporate strategy, finance, accounting and control, treasury, information technology and other corporate administrative functions, as well as extensive corporate governance experience. Ms. Helton is currently director and Chair of the Audit and Finance Committee of one other public company: Covance, Inc., one of the world's largest and most comprehensive drug development and food testing companies. She was also a director of the following other public companies at times during the past five years: Telephone and Data Systems, Inc. and U.S. Cellular Corporation. Previously she served as director of Aerial Communications and Lukens, Inc. until each of those public companies was acquired. Ms. Helton graduated from the University of Kentucky in 1971 with a B.S. degree in mathematics, summa cum laude, and earned an S.M. degree from Massachusetts Institute of Technology's Sloan School in 1977 with double majors in Finance and Planning & Control.

Larry D. Zimpleman, age 58, has been a Director of the Company and Principal Life since June 2006. He has been Chairman, President and Chief Executive Officer of the Company and Principal Life since May 2009, and was President and Chief Executive Officer of the Company and Principal Life from May 2008-May 2009. He was President and Chief Operating Officer of the Company and Principal Life from June 2006 to May 2008 and President, Retirement and Investor Services of the Company and Principal Life from December 2003 to June 2006. Mr. Zimpleman is a member of the board of directors of the American Council of Life Insurers, the Financial Services Roundtable and the board of trustees of Drake University. He earned his bachelor's and master's degrees at Drake University.

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Class I Directors Continuing in Office Whose Terms Expire in 2011

Betsy J. Bernard, age 55, joined Principal Life's Board in 1999 and has been a Director of the Company since 2001. She has been Chair of the Nominating and Governance Committee since 2001, the Alternate Presiding Director since 2007, a member of the Executive Committee since 2007 and a member of the Strategic Issues Committee since January 1, 2010.

Ms. Bernard was President of AT&T from October 2002 until December 2003 where she led more than 50,000 employees with AT&T Business, then a nearly \$27 billion organization serving four million business customers. She was Chief Executive Officer of AT&T Consumer 2001-2002, which served about 40 million consumers and contributed \$11.5 billion to AT&T's normalized revenue in 2002. She was head of the consumer and small-business division as Executive Vice President National Mass Markets at Qwest Communications from 2000-2001, and responsible for all retail markets at U S West as Executive Vice President Retail from 1998-2000. In addition to leading and being responsible for financial management of these organizations, Ms. Bernard has executive-level experience in brand management, marketing to individuals and small businesses, sales, customer care, operations, product management, electronic commerce, and acquisitions. She earned her bachelor's degree from St. Lawrence University, a master's degree in business administration from Fairleigh Dickinson University, and an MA from Stanford University in the Sloan Fellow Program. Ms. Bernard is also a director of two other public companies: Telular Corporation and Zimmer Holdings, Inc. She was also a director of the following other public companies at times during the past five years: BearingPoint, United Technologies Corporation and URS Corporation.

Jocelyn Carter-Miller, age 52, joined Principal Life's Board in 1999 and has been a Director of the Company since 2001. She was Chair of the Strategic Issues Committee from 2002 through 2009 and has been a member of the Nominating and Governance Committee since 2006 and a member of the Finance Committee since January 1, 2010. She has also served on the Audit Committee.

Ms. Carter-Miller has been President of TechEd Ventures since 2005, a community empowerment firm that educates and inspires children, families and communities through the development and management of charter schools and community-based programs. She was Executive Vice President and Chief Marketing Officer of Office Depot, Inc. from February 2002 until March 2004, with responsibility for the company's marketing for its 846 superstores in the United States and Canada and operations in 15 other countries. Before joining Office Depot, she was Corporate Vice President and Chief Marketing Officer of Motorola, Inc. with overall responsibility for marketing across its \$30 billion revenue base and diverse businesses. She also had general management responsibility while at Motorola for network operations in Latin America, Europe, the Middle East and Africa. Prior to joining Motorola, she was Vice President, Marketing and Product Development at Mattel, Inc. In addition to her marketing leadership background, Ms. Carter-Miller has executive-level experience in brand management, advertising, sales, multinational companies, international operations, acquisitions, product development, project management, strategic planning, and leadership development and training. She is also a certified public accountant.

She earned her B. S. in Accounting at the University of Illinois and an MBA in Finance and Marketing at the University of Chicago.

Ms. Carter-Miller is also a director of two other public companies: Interpublic Group of Companies, Inc. and NetGear, Inc.

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Gary E. Costley, age 66, has been a Director of the Company and Principal Life since 2002. He has been a member of the Audit Committee since February 2009 and a member of the Strategic Issues Committee since January 1, 2010. He has also served on the Human Resources Committee.

Dr. Costley was Chairman and Chief Executive Officer of International Multifoods Corporation, a manufacturer and marketer of branded consumer food and food service products, from November 2001 until June 2004.

Following his retirement from International Multifoods which had just under \$1 billion in sales in 2003, he was a co-founder and managing director of C & G Capital Management which provided capital and management to health, medical and nutritional products and services companies until May 2009. He was Dean of the Babcock Graduate School of Management at Wake Forest University in Winston-Salem, North Carolina from 1995 - 1997 and taught business ethics during his tenure as a professor of management. Dr. Costley also had 24 years with Kellogg Company from 1970 - 1994 where he most recently was President of Kellogg North America. In addition to leading and being responsible for financial management of International Multifoods and Kellogg North America, Dr. Costley has executive-level experience in brand management, marketing, sales, distribution, public affairs, corporate development, quality management and acquisitions and mergers, and has taught business ethics.

He attended Oregon State University where he earned his bachelor's and master's degrees and a Ph.D.

Dr. Costley is also a director of three other public companies: Covance, Inc., Prestige Brand Holdings, Inc. and Tiffany & Co. He was also a director of the following other public companies at times during the past five years: Accelrys, Inc. and Pharmacopeia Drug Discovery, Inc.

Class II Directors Continuing in Office Whose Terms Expire in 2012

Richard L. Keyser, age 67, has been a Director of the Company and Principal Life since 2002. He has been a member of the Finance Committee since January 1, 2010, a member of the Nominating and Governance Committee since 2003, and has also served on the Audit Committee.

Mr. Keyser has been Chairman Emeritus of W.W. Grainger, Inc., an international distributor of products used by businesses to maintain, repair and operate their facilities, since April 2009. He was Chairman of the Board of Grainger since September 1997 and served as Chief Executive Officer from March 1995 - May 2008. Previously he was President and Chief Executive Officer from March 1995 - September 1997, as well as President and Chief Operating Officer from March 1994 - March 1995. In addition to leading and being responsible for financial management of Grainger, which had sales of \$6.4 billion in 2007, Mr. Keyser gained executive-level experience at Grainger on international operations, notably China and Mexico; operational excellence; customer service; integrated distribution networks; marketing to individuals, businesses and institutions; and electronic commerce. He earned his bachelor's degree in nuclear science at the U. S. Naval Academy and a master's degree in business administration at Harvard University.

Mr. Keyser is a director of two other public companies: W.W. Grainger, Inc. and Zebra Technologies Corporation. He was also a director of the following other public company at times during the past five years: Rohm and Haas Company.

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Arjun K. Mathrani, age 65, has been a Director of the Company and Principal Life since 2003. He has been Chair of the Audit Committee since 2007, a member of the Finance Committee since January 1, 2010, and a member of the Executive Committee since 2009. He has also served on the Strategic Issues Committee. Mr. Mathrani teaches courses in finance, risk management and banking at New York University Stern School of Business, at St. John's University, New York, and at Cambridge University's Judge Business School. In 1998, Mr. Mathrani was the Chief Executive Officer of ING Barings in London. He retired from Chase Manhattan Bank as Senior Managing Director Global Asset Management and Private Banking in 1997, where he served as Chief Financial Officer from 1994-1996 and Corporate Treasurer from 1991-1994. While at Chase for 28 years, he held senior positions in its credit risk management function and had extensive experience running Chase's businesses in Asia and Latin America. He is a member of the Global Association of Risk Professionals. Mr. Mathrani has executive-level experience in finance, capital markets, banking, risk management, analysis and management of portfolio investments, international operations, global asset management, acquisitions and mergers, and investor relations. He received his bachelor's degree at the University of Bombay in India and his master's degree at Cambridge University in England.

Elizabeth E. Tallett, age 61, has been a Director of Principal Life since 1992 and a Director of the Company since 2001. She has been Presiding Director since 2007 and has also served as Alternate Presiding Director. She has been a member of the Human Resources Committee since 2007 and a member of the Executive Committee since 2002. Ms. Tallett was the Chair of the Audit Committee from 1997-2007 and has also been a member of the Strategic Issues Committee. Ms. Tallett has been a Principal of Hunter Partners, LLC, a management company for early to mid-stage pharmaceutical, biotech and medical device companies, since July 2002. She has more than 30 years experience in the bio pharmaceutical and consumer industries. Her senior management experience includes President and Chief Executive Officer of Transcell Technologies, Inc., President of Centocor Pharmaceuticals, member of the Parke-Davis Executive Committee, and Director of Worldwide Strategic Planning for Warner-Lambert. In addition to her leadership and financial management in pharmaceutical and biotechnology firms, she has executive-level experience in multinational companies, international operations, economics, strategic planning, marketing, product development, and acquisitions and mergers. She received a bachelor's degree with honors in mathematics and economics from the University of Nottingham in England. Ms. Tallett is a director of four other public companies: Coventry Health Care, Inc., IntegraMed America, Inc., Meredith Corporation and Varian, Inc. She was also a director of the following other public companies at times during the past five years: Immunicon, Inc. and Varian Semiconductor Equipment Associates, Inc.

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CORPORATE GOVERNANCE

The business of the Company is managed under the direction of the Board. The Board selects and oversees management and provides advice and counsel to the Chief Executive Officer ("CEO"). The Board reviews and discusses the strategic direction of the Company and monitors the Company's performance against goals the Board and management establish.

Board Leadership Structure

The current Board leadership structure is a combined position of Chairman of the Board and Chief Executive Officer (Larry D. Zimpleman) and a Presiding Director (Elizabeth E. Tallett). Betsy J. Bernard is the Alternate Presiding Director. J. Barry Griswell served as non-executive Chairman of the Board following his retirement from the Company on December 31, 2008 until May 19, 2009. On May 19, 2009, Larry D. Zimpleman was named Chairman of the Board in addition to his position as CEO. The Presiding Director is selected by the other independent Directors, and the position does not automatically rotate.

The Board regularly reviews its leadership model and has a flexible approach on whether the positions of CEO and Chairman should be split or combined. The decision is based on the tenure and experience of the CEO along with the broader economic and operating environment of the Company.

The Presiding Director and Chairman jointly make the decisions on the Board agenda and information for each meeting. The Presiding Director and Chairman share the duties of presiding at each Board meeting. The Chairman presides when the Board is meeting as a full Board. The Presiding Director presides in the absence of the Chairman and also presides during each executive session of independent Directors ("Executive Sessions"), which generally occur both at the start and end of each regular Board meeting. Executive Sessions were held in conjunction with each regularly scheduled Board meeting during 2009 and many of the special Board meetings, and all Executive Sessions were led by the Presiding Director.

The Presiding Director plans the content and time devoted to the Executive Sessions and gives input to the Chief Executive Officer based on Executive Session discussions. The Presiding Director is responsible to take action and call a special Board meeting if the Chairman and CEO is unable to act for any reason.

In the experience of the Company, this more flexible and shared approach towards Board leadership is preferable to a more proscriptive approach that either requires a combined Chairman/CEO or a split of the positions of Chairman and CEO.

Role of the Board of Directors in Risk Oversight

The Company's Board of Directors believes that risk oversight, like strategy, is a responsibility of the full Board. The Board weighs risk versus return in the context of the organization's key risks and risk philosophy when approving corporate strategy and major business decisions, setting executive compensation, and monitoring the Company's progress. The Board uses its committees in carrying out certain of its risk oversight responsibilities, as discussed below. These committees make reports to the full Board at each regular Board meeting. This regular reporting is part of the Board's leadership structure and promotes coordination of the risk oversight function at the level of the full Board. Like all financial services companies, we are exposed to a wide variety of financial, accounting, operational and other risks and these are regularly reviewed with the Board and its committees. The Company's extensive risk management framework, which includes the Board and its committees, is discussed in more detail on pages 16 - 17 of the Company's annual report on Form 10-K.

The Company has had a Chief Risk Officer since 2005. The Chief Risk Officer works with other members of management including the Chief Executive Officer, Chief Financial Officer, Chief Investment Officer, General Counsel and business unit Presidents in identifying, assessing and managing financial, industry and other business risks in an entity-wide, centralized Enterprise Risk Management ("ERM") program. These officers make periodic reports to and have discussions with the Board and its committees on various aspects of the ERM program, specific risk topics, and how strategy and operational initiatives integrate with the Company's risk objectives. These reports allow the Board to get an increased understanding of the material risks the organization faces and whether management is responding appropriately to potential risks, how certain risks relate to other risks, and the level of risk in proposed actions presented for Board approval.

Because we are a financial services company with insurance and risk-related businesses supported by investment portfolios of diverse assets, capital adequacy is an important focus of ERM. At each regular Board

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meeting, the Chief Risk Officer reports on sources and uses of capital, satisfaction of regulatory and rating agency capital requirements, capital management and liquidity. The Chief Investment Officer reports quarterly to the Board on management efforts to position the Company's investment policy for risk and reward and on risk in the investment portfolio, including credit risk.

The Chief Risk Officer submits a quarterly, in-depth report to the Board on a current risk management topic of interest and annually makes a presentation to the Board on the Company's ERM program. The annual presentation and discussion with the Board includes topics such as risk management philosophy; risk identification, assessment and mitigation throughout the year; an inventory of the Company's risks related to each of the categories of credit, market, product/pricing and business/operation and where within the Company these risks are managed; risk modeling and capital adequacy analysis using various metrics; relative impact on the organization of various financial risks; and external perspectives on the organization's risk management.

The Audit Committee of the Board discusses policies with respect to risk assessment and risk management, including the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The Chief Risk Officer attends Audit Committee meetings and regularly meets along with selected other members of management in executive session with the Audit Committee members.

The Human Resources Committee believes the Company's executive compensation program should be aligned with our strategic plan and compensate executives for an appropriate balance of reward and risk. The Committee reviews incentive compensation arrangements to confirm that they do not encourage inappropriate risk-taking and adopts policies to limit or mitigate risk. The Committee meets regularly with the Chief Risk Officer to assess and discuss risk in the Company's compensation program and the Committee's independent outside compensation consultant evaluates and advises the Committee on the design and risk implications of its executive compensation program.

In selecting candidates for the Board, the Nominating and Governance Committee takes into account whether the Board as a whole possesses the expertise needed to monitor the risks facing the Company.

In addition to its primary purpose of assisting the Board with respect to the organization's financial, investment and capital management policies, the Board's newly formed Finance Committee will assist the Board in its oversight of particular risks. The Committee will also review and provide guidance to the Board on the organization's capital adequacy based on the organization's risk exposures.

Majority Voting

Directors are elected by the majority of votes cast in uncontested Director elections. If an incumbent Director is not elected, and no successor is elected, the Board of Directors will decide whether to accept the resignation that was tendered by the nominee. The Board's decision and reasons for its decision will be publicly disclosed within 90 days of certification of the election results.

Director Independence

The Board determines at least annually whether each Director is independent, and uses the independence standards it has adopted to assist in its determinations. These standards are available on the Company's website, www.principal.com. The Board has affirmatively determined that nine of the current 11 Directors (and William T. Kerr and Therese M. Vaughan, who also served on the Board during 2009⁽¹⁾) meet the independence standards and have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), and that all current members (and Directors who were members in 2009) of the Audit, Human Resources and Nominating and Governance Committees are independent under the New York Stock Exchange listing standards.

(1)

Mr. Kerr resigned from the Board effective February 24, 2010, in connection with his new position as president and chief executive officer of Arbitron, Inc. Dr. Vaughan resigned from the Board on January 15, 2009, to accept a position as the chief executive of the National Association of Insurance Commissioners.

In its review of Director independence, the Board considers all commercial, banking, consulting, legal, accounting, charitable and familial relationships and other direct and indirect relationships (as a partner,

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shareholder or officer of an organization) a Director may have with the Company and its subsidiaries. The Board most recently made these determinations for each Director in February 2010, based on:

A review of relationships and transactions between Directors, their immediate family members or other organizations and the Company, its subsidiaries or executive officers;

Questionnaires completed by each current Director regarding any relationships or transactions that could affect the Director's independence;

The Company's review of its purchasing, investment and customer records; and

Recommendations of the Nominating and Governance Committee.

Based on this information and the standards described above, the Board has determined that the following Directors are independent (or were while members of the Board): Ms. Bernard, Ms. Carter-Miller, Dr. Costley, Mr. Dan, Dr. Gelatt, Ms. Helton, Mr. Kerr, Mr. Keyser, Mr. Mathrani, Ms. Tallett and Dr. Vaughan. Eighty-two percent of the Company's current Directors are independent.

One Director had no relationship with the Company, except as a Director (Mr. Mathrani). For other Directors, as shown below, the Board considered the following categories or types of transactions, relationships or arrangements that currently exist (or existed in the last three years) in making its independence determinations. In each transaction described below, the annual payments made or received by the Company did not exceed the greater of \$1,000,000 or two percent of the recipient's gross revenues:

Seven Directors, personally, are or were our customers: Ms. Bernard, Ms. Carter-Miller, Dr. Gelatt, Ms. Helton, Mr. Kerr, Mr. Keyser, Ms. Tallett.

Four Directors are or were executive officers of companies that had business transactions with us. Those companies are our customers (Mr. Dan, Dr. Gelatt, Mr. Kerr, Mr. Keyser) or we are their customers (Mr. Dan, Mr. Kerr, Mr. Keyser), or as part of our investment portfolio supporting Principal Life's insurance business, we have invested in their public securities (Mr. Dan, Mr. Kerr, Mr. Keyser) or the company leased space in an investment property (Mr. Keyser).

Seven Directors serve or served as non-management directors of other companies that had business transactions with us. Those companies are our customers (Mr. Kerr, Mr. Keyser, Ms. Tallett) or we are their customers (Ms. Bernard, Mr. Kerr, Mr. Keyser), or as part of our investment portfolio supporting Principal Life's insurance operations, we have invested in their public securities (Ms. Bernard, Ms. Carter-Miller, Dr. Costley, Ms. Helton, Mr. Kerr, Mr. Keyser, Ms. Tallett) or the company leased space in an investment property (Ms. Bernard, Mr. Keyser).

Dr. Costley's son-in-law is a partner in a law firm that performs legal services for the Company. Dr. Costley's son-in-law does not personally perform the services for the Company.

Dr. Vaughan's brother is an employee (but not an executive officer) of the Company.

The above transactions were not considered by the Board to be material to the Company or to the other persons or companies involved in the transactions. This conclusion was based on the amount paid for the goods or services and the finding that the transactions, including the investment transactions, were entered into in the ordinary course of business and on terms generally available in the marketplace.

Certain Relationships and Related Transactions

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Nippon Life Insurance Company ("Nippon Life"), which held approximately 6% of the Company's Common Stock in 2009, is the parent company of Nippon Life Insurance Company of America ("NILA"). Nippon Life, NILA and Principal Life have had an ongoing business relationship for more than 20 years. Principal Life assisted Nippon Life in the start up activities of NLIA, which began business in 1991. Currently, Nippon Life and NLIA are customers of Principal Life and purchase retirement and financial services offered by Principal Life. NLIA paid Principal Life approximately \$9.5 million for third party administration services related to its group welfare benefit plans, approximately \$110,000 for tax services related to its insurance business, and approximately \$50,000 for services related to its retirement plans for 2009. Nippon Life and NILA also paid Principal Global Investors, LLC and its subsidiaries approximately \$1,240,900 for investment services for 2009. The Company owns approximately three percent of the common stock of NLIA.

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The Company has a policy for approval or ratification of transactions with Related Parties. The Nominating and Governance Committee or Chair of the Committee must approve all such transactions not deemed "pre-approved" under the Company's Related Party Transaction Policy. At each quarterly meeting, the Nominating and Governance Committee reviews a report of any non-material transactions with Directors or the firms of which they are an executive officer or director, and any other Related Party transactions, including those involving executive officers and more than five percent shareholders. If appropriate, the Committee ratifies these transactions. Transactions involving employment of a relative of an executive officer or Director must be approved by the Human Resources Committee. The Company's Related Party Transaction Policy may be found at www.principal.com.

Board Meetings

The Board held 20 meetings in 2009, and each of the Directors then in office attended more than 75 percent in the aggregate of the meetings of the Board and the standing committees of which the Director was a member. The annual meeting of shareholders is scheduled on the same day as the regular meeting of the Board in the second quarter to enable the Directors to attend. All of the Directors attended the 2009 Annual Meeting.

Corporate Code of Ethics

Each Director and officer of the Company has certified compliance with the Corporate Code of Ethics.

Board Committees

Only independent Directors may serve on the Audit, Human Resources and Nominating and Governance Committees. Committee members and committee chairs are recommended to the Board by the Nominating and Governance Committee. The Committees review their charters and evaluate their performance annually. Charters of the Audit, Finance, Human Resources and Nominating and Governance Committees are available on the Company's website, www.principal.com.

Table of Contents**Committee Membership**

Director	Audit Committee	Human Resources Committee	Nominating and Governance Committee	Executive Committee	Strategic Issues Committee(1)	Finance Committee
Betsy J. Bernard			Chair	X	X(2)	
Jocelyn Carter-Miller			X		Chair(2)	X
Gary E. Costley(3)	X	X			X(2)	
Michael T. Dan		Chair(4)			Chair(2)	
C. Daniel Gelatt	X					
J. Barry Griswell				Chair(5)		
Sandra L. Helton	X				X(2)	Chair
William T. Kerr(6)		Chair		X		
Richard L. Keyser			X			X
Arjun K. Mathrani	Chair			X	X(2)	X
Elizabeth E. Tallett		X		X		
Therese M. Vaughan(7)	X				X	
Larry D. Zimpleman				Chair(5)		

- (1) The Strategic Issues Committee has the primary responsibility for planning the Board of Directors' annual strategic retreat.
- (2) Ms. Carter-Miller was the Chair of the Strategic Issues Committee until January 1, 2010 when Mr. Dan became the Chair of the Committee. Ms. Helton and Mr. Mathrani were members of the Committee until January 1, 2010 when in addition to Mr. Dan, Ms. Bernard and Dr. Costley became members of the Committee.
- (3) Dr. Costley moved from the Human Resources Committee to the Audit Committee on February 26, 2009.
- (4) As of February 24, 2010.
- (5) Mr. Griswell was Chair of the Executive Committee until August 18, 2009 when Mr. Zimpleman became the Chair of the Committee.
- (6) Until his resignation on February 24, 2010.
- (7) Until her resignation on January 15, 2009.

Audit Committee

The Audit Committee is responsible for:

appointment, termination, compensation and oversight of the Company's independent auditor;

reviewing and reporting to the Board on the audit and non-audit activities of the independent auditor;

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approving all audit engagement fees and pre-approval of any compensation of the independent auditor for non-audit engagements, consistent with the Company's Policy on Auditor Independence;

reviewing audit plans and results;

reviewing and reporting to the Board on accounting policies and legal and regulatory compliance; and

reviewing the Company's policies with respect to risk assessment and risk management.

The Committee meets at least quarterly with:

financial management;

the internal auditor;

the independent auditor;

the Company's Chief Financial Officer; and

the Company's General Counsel.

The Committee held 10 meetings in 2009.

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The Board has determined that all members of the Audit Committee are financially literate, and that Ms. Helton and Mr. Mathrani are "financial experts" as defined by the Sarbanes-Oxley Act.

Audit Committee Report

The Audit Committee oversees the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed with management the audited financial statements for the fiscal year ended December 31, 2009, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Committee has discussed with Ernst & Young LLP, the Company's independent auditor, the matters required to be discussed by Statement on Auditing Standards ("SAS") 114, *The Auditor's Communication with those Charged with Governance*, as adopted by the Public Company Accounting Oversight Board (United States) ("PCAOB") in Rule 3200T. SAS 114 requires the independent auditor to communicate (i) the auditor's responsibility under standards of the PCAOB; (ii) an overview of the planned scope and timing of the audit; and (iii) significant findings from the audit, including the qualitative aspects of the entity's significant accounting practices; significant difficulties, if any, encountered in performing the audit; uncorrected misstatements identified during the audit, other than those the auditor believes are trivial, if any; any disagreements with management; and any other issues arising from the audit that are significant or relevant to those charged with governance.

The Committee has received from Ernst & Young LLP the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's communications with the Committee concerning independence. The Committee has discussed with Ernst & Young LLP its independence and Ernst & Young LLP has confirmed in its letter that, in its professional judgment, it is independent of the Company within the meaning of the federal securities laws.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, for filing with the SEC. The Committee has also approved, subject to shareholder ratification, the appointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2010.

As specified in the Audit Committee charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. That is the responsibility of the Company's independent auditor and management. In giving our recommendation to the Board, the Committee has relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles, and (ii) the report of the Company's independent auditor with respect to such financial statements.

Arjun K. Mathrani, Chair
Gary E. Costley
C. Daniel Gelatt
Sandra L. Helton

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Nominating and Governance Committee

The Nominating and Governance Committee recommends to the Board:

Director candidates; and

Board committee assignments and service as Presiding Director and Alternate Presiding Director.

The Committee also reviews and reports to the Board on:

Director independence;

performance of individual Directors;

process for the annual self-evaluations of the Board and its committees;

content of the Company's Corporate Code of Ethics;

Director compensation; and

the Company's Corporate Governance Guidelines.

The Committee held four meetings in 2009.

Director Qualifications, Process for Identifying and Evaluating Director Candidates and Diversity of the Board

The Committee regularly assesses the appropriate mix of skills and characteristics for Board members in light of the current make-up of the Board and the needs of the Company. Periodically, the Committee uses an outside consultant to assist in the strategic process of evaluating the expertise, backgrounds and competencies of the Directors as they relate to the current strategic direction, initiatives and risk factors of the Company. The results of these current needs assessments provide direction in searches for specific Board candidates, which are normally undertaken by the Committee using director search firms.

Individual performance reviews are held for Directors who are eligible for re-nomination in connection with the next Annual Meeting. The process involves reviewing the Director's current contributions to the Board and his or her present occupation and other commitments. For several years, the Committee has engaged an outside consulting firm to perform individual Director evaluations by interviewing the other members of the Board and then assessing the Director's current contributions in light of the needs of the Board.

In evaluating both new Board candidates and Directors who are eligible for renomination, the Committee assesses personal and professional ethics, integrity and values, and expertise that is useful to the Company and complementary to the background and experience of other Directors. It is important that the Board includes Directors who are CEOs or retired CEOs and Directors who have financial management or accounting experience. The following competencies are also sought: strategic orientation, results-orientation and comprehensive decision-making. The Board has a mandatory retirement policy that provides that a Director's term shall not extend beyond the annual meeting following the Director's 72nd birthday.

The Committee addresses the qualifications of current Directors and how they relate to the effectiveness of the Board and its committees through the processes described above. Many important attributes apply to all members of the Board, including: backgrounds and experiences

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which support the Company's core value of integrity; background, training or experience which is useful to the Company considering its current strategy, initiatives and risk factors; and demonstrated willingness to prepare for, attend and participate effectively with the other Directors and management in Board and Committee meetings. Several Directors, as their primary occupation, have led businesses or major business divisions as CEO or President (Ms. Bernard, Dr. Costley, Mr. Dan, Dr. Gelatt, Mr. Keyser and Ms. Tallett). Ms. Carter-Miller, Ms. Helton and Mr. Mathrani have specific training and executive-level experience in accounting or financial management. Mr. Mathrani has executive-level experience in the financial services and global asset management industries, and that particular background was identified in the candidate search which led to his selection. Many Directors have executive-level experience in other areas central to the Company's strategy and initiatives, including international business development and operations (Ms. Carter-Miller, Mr. Dan, Ms. Helton, Mr. Keyser, Mr. Mathrani, Ms. Tallett); advertising, marketing, distribution and brand management (Ms. Bernard, Ms. Carter-Miller, Mr. Dan, Dr. Costley, Mr. Keyser); consumers, quality management and customer service (Ms. Bernard, Dr. Costley, Mr. Dan, Dr. Gelatt, Mr. Keyser); product development (Ms. Bernard, Ms. Carter-Miller, Dr. Gelatt, Ms. Tallett); economics, mathematics or technology (Dr. Gelatt, Ms. Helton); risk management (Mr. Dan, Mr. Mathrani);

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strategic planning (Ms. Carter-Miller, Ms. Helton, Ms. Tallett); and major corporate transactions such as acquisitions and mergers (Ms. Bernard, Dr. Costley, Ms. Tallett).

The Board's Corporate Governance Guidelines state that diversity of the Board as a whole is a valued objective. Assessing Board diversity in terms of race, gender and national origin, and with regard to various backgrounds, experiences and areas of expertise, is part of the Nominating and Governance Committee's continual review of the Board's current and future needs. The Board's recognition of diversity as an important factor in Board effectiveness is apparent through observation of past and current Board selections and is not set forth as a formal policy. It is a reflection of the Company's culture and commitment to diversity, for which the Company has received significant recognition from Catalyst, the National Association of Female Executives, *LATINA Style* magazine and others. The composition and effectiveness of the Board has benefitted over time from specific candidate searches to identify nominees who possessed the skills, backgrounds and qualifications needed by the Board and who would also increase the Board's diversity.

The Committee will consider shareholder recommendations for Directors sent to the Nominating and Governance Committee, c/o the Corporate Secretary. Director candidates nominated by shareholders are evaluated in the same manner as Director candidates identified by the Committee, management and search firms.

Finance Committee

The Finance Committee is a new Board Committee effective January 1, 2010, with the primary purpose of assisting the Board with respect to the organization's financial, investment and capital management policies. The Finance Committee is responsible for:

reviewing the capital structure and capital plan of the organization;

reviewing and providing guidance to the Board on significant financial transactions; financial policies; credit ratings; matters of corporate finance including issuance of debt and equity; shareholder dividends; and proposed mergers, acquisitions and divestitures;

reviewing and providing guidance to the Human Resources Committee and the Board on financial goals for the upcoming year;

overseeing the organization's investment policies, strategies and programs, and reviewing the policies and procedures governing the use of financial instruments including derivatives; and

assisting the Board in overseeing and reviewing the organization's enterprise risk management framework, including the significant policies, procedures and practices employed to manage liquidity risk, credit risk, market risk, operational risk and insurance risk.

Human Resources Committee

The Human Resources Committee is responsible for:

evaluating the performance of the CEO and determining his compensation in light of goals and objectives approved by the Committee;

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reviewing and approving compensation for all other officers of the Company and Principal Life at the level of Senior Vice President and above. We will refer to these officers as "Executives" throughout the remainder of this discussion;

reviewing and approving any employment, severance or change of control agreements and perquisites for Executives;

overseeing Executive development and succession planning;

acting on management's recommendations for salary and employee compensation policies for all other employees;

administering the Company's Annual Incentive Plan, Incentive Pay Plan ("Principal Annual Plan") and Stock Incentive Plan, and any other compensation plans that provide compensation to Executives;

acting on management's recommendations that require Director action for all employee pension and welfare benefit plans; and

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reviewing the Company's compensation programs to confirm that these programs encourage management to take appropriate risks on an individual risk basis and in the aggregate on a Company wide basis, and to discourage inappropriate risk and behaviors that are inconsistent with the Company's business plan and policies.

The Committee held eight meetings in 2009.

Performance Goal Setting Process

The Board holds a strategic planning session with management in September of each year to review the Company's long-term strategy and discuss how longer-term objectives and near-term priorities will be achieved and balanced against one another. This is an important foundation for the annual performance goal-setting process.

At the November Board meeting, the CEO, Chief Financial Officer ("CFO"), Chief Risk Officer and Division Presidents recommend preliminary Company and business unit financial goals and strategic initiatives for the next year and discuss with the Board how the goals and initiatives were developed and how difficult they will be to achieve. The Human Resources Committee reviews the individual goals the CEO proposes for himself, and provides feedback on how these goals should be revised. Based on these discussions, employees throughout the organization, including all Executives, develop individual performance goals with their leaders that support achievement of the goals of the Company and its business units. The CEO's final recommended goals for the Company, each business unit and individual Executives are reviewed with and approved by the Human Resources Committee after the financial results for the prior year are finalized. For 2010, and as it will do going forward, the new Finance Committee of the Board reviewed and provided guidance to the Board and the Human Resources Committee on the assumptions behind the financial projections for, and the appropriateness of, the Company's financial goals for the upcoming year.

Executive Committee

The Executive Committee generally acts only on matters specifically delegated to it by the Board. All actions of the Executive Committee must be approved by its independent members. The Executive Committee has all the authority of the Board in the management of the Company's business between Board meetings, except that it has no authority with respect to matters for which the Board has specifically directed otherwise or for certain matters set forth by law and in the Company's By-Laws. The Committee did not meet in 2009.

DIRECTORS' COMPENSATION

Directors serve on the Boards of the Company, Principal Life and Principal Financial Services, Inc. Directors who are also employees do not receive any compensation for their service as members of the Board. The Company provides competitive compensation to attract and retain high-quality Directors. The Company's Director compensation philosophy is to have a compensation program that encourages the Board to be independent and objective, to appropriately challenge the management team and to protect shareholder value, while at the same time, provide a reasonable amount of compensation for the time and effort expended by Directors. A substantial proportion of Director compensation is provided in the form of equity to help align Directors' interests with the interests of shareholders.

The Nominating and Governance Committee uses Frederic W. Cook & Co., Inc. ("Cook") to advise on Director compensation. The Director compensation program is generally reviewed annually. During these reviews Cook evaluates the design and competitiveness of the Director compensation program. It also reviews corporate governance best practices and trends in Director compensation and recommends changes to our program, if appropriate. The competitive analysis of Director compensation is conducted using the same Peer Group as is used for the competitive analysis of Executive compensation. The Human Resources Committee establishes the Peer Group and makes adjustments to it from time to time. As it does for Executive compensation, the Company believes targeting Director compensation at approximately the median of the Peer Group is appropriate.

Effective January 1, 2009, the Board established specific annual cash compensation in the amount of \$250,000, payable in quarterly installments, for the non-executive Chairman of the Board, J. Barry Griswell, in lieu of all other forms of Director cash compensation. Mr. Griswell served in this role following his retirement as an employee of the Company on December 31, 2008, until May 19, 2009, and received two quarterly installments of this cash compensation. Due to the economic conditions and other steps taken by the Company to reduce expenses, including reducing employees' compensation, the Board reduced its cash compensation described below (including

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the cash compensation for the non-executive Chairman) by 10%, effective on March 28, 2009, and that compensation has not been increased. Mr. Zimpleman, as an employee of the Company, does not receive any compensation for serving as a Director. The Nominating and Governance Committee did not conduct its normal Director compensation program review in 2009 because the Board had decided it would not increase Director compensation in 2009, regardless of the results of the competitive analysis.

Annual Retainers

Beginning in November 2008, Directors (except the non-executive Chairman, as explained above) who were not our employees, received an annual retainer of \$65,000 (payable semiannually), an increase from the prior annual retainer of \$60,000. Additional annual retainers received for serving as a Board Committee Chair were also increased: The Audit Committee Chair additional annual retainer was increased from \$15,000 to \$20,000; the Human Resources Committee Chair additional annual retainer was increased from \$10,000 to \$17,500 and the Nominating and Governance Committee Chair additional annual retainer was increased from \$10,000 to \$15,000. The additional annual retainer of \$5,000 for serving as chair of any other committee of the Board was not changed. The additional annual retainer for serving as the Presiding Director was increased from \$5,000 to \$15,000. The Nominating and Governance Committee will determine the portion of the annual retainer payable to a Director who first becomes eligible for compensation during a Board year.

As noted above, effective on March 28, 2009, the annual retainer for Directors, for service as a Committee chair, the non-executive Chairman and the Presiding Director, and the fees for attendance at meetings of the Board or a committee were reduced by 10%. The reduced fees are illustrated in the chart following the table showing the fees earned by Directors in 2009.

Restricted Stock Unit Grants

Beginning in May 2009, at the close of each annual meeting, each non-employee Director will receive an annual award of restricted stock units ("RSUs") valued at \$95,000 (unless a greater or lesser amount is determined to be appropriate by the Nominating and Governance Committee).

Grants are made pursuant to the Principal Financial Group, Inc. 2005 Directors Stock Plan. Directors who join the Board at times other than the annual meeting or who first become eligible for compensation during a Board year may receive a grant of RSUs at the discretion of the Nominating and Governance Committee, which may be a portion or the entire amount of the annual grant. RSUs vest on the date of the next annual meeting subsequent to the grant. The receipt of the RSUs is deferred until at least the date of the Director's retirement from the Board. At payout, they are converted to shares of Common Stock. Dividend equivalents accumulate in additional RSUs, which vest and are converted to Common Stock at the same time and to the same extent as the underlying RSU. Beginning in 2009, Directors may defer payout of their RSUs beyond the date they terminate service on the Board.

In addition to the annual award of RSUs received by all Directors in office at the close of the annual meeting on May 19, 2009, J. Barry Griswell received a pro rata grant of RSUs for the period January 2, 2009 through May 19, 2009. Prior to January 1, 2009, Mr. Griswell was an employee of the Company and therefore not eligible to receive Director compensation.

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Fees Earned by Directors in 2009

The following table summarizes the compensation earned by non-employee Directors in 2009.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
Betsy J. Bernard	\$ 126,160	\$ 94,998	\$ 221,158
Jocelyn Carter-Miller	\$ 103,660	\$ 94,998	\$ 198,658
Gary E. Costley	\$ 105,460	\$ 94,998	\$ 200,458
Michael T. Dan	\$ 106,185	\$ 94,998	\$ 201,183
C. Daniel Gelatt	\$ 108,460	\$ 94,998	\$ 203,458
J. Barry Griswell(2)(3)	\$ 182,100	\$ 126,999	\$ 309,099
Sandra L. Helton	\$ 110,235	\$ 94,998	\$ 205,233
William T. Kerr	\$ 123,380	\$ 94,998	\$ 218,378
Richard L. Keyser	\$ 108,510	\$ 94,998	\$ 203,508
Arjun K. Mathrani	\$ 127,630	\$ 94,998	\$ 222,628
Elizabeth E. Tallett	\$ 122,130	\$ 94,998	\$ 217,128
Therese M. Vaughan	\$ 0	\$ 0	\$ 0

This chart shows the fees payable to Directors for their services in 2009 and how those amounts were affected by the 10% reduction in cash fees starting March 28, 2009:

	From November 2008 March 27, 2009	From and After March 28, 2009
Annual Retainers		
Board	\$65,000	\$58,500
	\$95,000 in RSUs	\$95,000 in RSUs
Committee Chairs		
Audit	\$20,000	\$18,000
Human Resources	\$17,500	\$15,750
Nominating and Governance	\$15,000	\$13,500
Other Committees	\$5,000	\$4,500
Presiding Director	\$15,000	\$13,500
Non Executive Chairman of the Board(3)	\$250,000	\$225,000
Attendance Fees		
Board Meeting	\$2,500 per day	\$2,250
Board Meeting via Telephone	\$1,000	\$900
Committee Meeting	\$1,300 if held on the day of or day prior to a Board meeting.	\$1,170 if held on the day of or day prior to a Board meeting.
	\$1,500 if held other than on the day of or day prior to a Board meeting.	\$1,350 if held other than on the day of or day prior to a Board meeting.
Committee Meeting via Telephone	\$1,000	\$900

(1) The amounts shown in this column reflect the grant date fair value of awards made in 2009, determined in accordance with FASB Accounting Standards Codification ("ASC") Topic 718 (formerly referred to as FAS 123R). These awards do not reflect actual amounts realized or that may be realized by the recipients.

(2) Mr. Griswell received a pro rata RSU grant for the period January 1, 2009 – May 19, 2009 as part of his compensation as non-executive Chairman of the Board in addition to the annual RSU grant for all non-employee Directors following the annual meeting on May 19, 2009.

(3)

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Annual retainer beginning on January 1, 2009, for J. Barry Griswell as non-executive Chairman of the Board, in lieu of other cash compensation, payable quarterly. Mr. Griswell served in this role from January 1, 2009 May 19, 2009, and received two quarterly installments. Beginning July 1, 2009, Mr. Griswell received the regular cash compensation for Directors, including a pro rated regular Board annual retainer.

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As of December 31, 2009, each Director had the following aggregate number of outstanding stock options and RSUs as a result of Director compensation in 2009 and prior years, including additional RSUs as the result of dividend equivalents:

Name	Total Stock Options Outstanding at Fiscal Year End 2009 (shares)	Total RSUs Outstanding at Fiscal Year End 2009 (shares)
Betsy J. Bernard	7,820	11,399
Jocelyn Carter-Miller	7,820	13,089
Gary E. Costley	7,820	11,399
Michael T. Dan	0	9,292
C. Daniel Gelatt	7,820	15,482
J. Barry Griswell	0	6,044
Sandra L. Helton	7,820	11,399
William T. Kerr	7,820	13,089
Richard L. Keyser	7,820	15,065
Arjun K. Mathrani	3,820	14,220
Elizabeth E. Tallett	7,820	15,065
Therese M. Vaughan	0	0

Deferred Compensation

Directors may defer the receipt of their cash retainers and attendance fees under the Deferred Compensation Plan for Non-Employee Directors of Principal Financial Group, Inc. This Plan provides four investment options: phantom units tied to the Company's Common Stock, the Principal LargeCap Blend I Inst Fund, the Principal Real Estate Securities Inst Fund, and the Principal Bond & Mortgage Securities Inst Fund. All of these funds are available to participants in Principal Life's broad-based employee 401(k) plan. The returns realized on these funds during 2009 are listed in the table under the heading "Qualified 401(k) Plan and Excess Plan," on page 40.

Directors' Stock Ownership Guidelines

In August of 2006, the Board adopted a guideline that encourages Directors to accumulate a minimum level of Company stock ownership equal to five times their annual Board cash retainer by the later of August 2011, or five years after joining the Board. This program is intended to ensure that Directors accumulate a meaningful amount of stock, which fosters commonality of interest with shareholders. In addition, the receipt of the Common Stock represented by the RSUs is deferred at least until the Director's retirement or termination of service from the Board. Once this guideline is met, Directors will not need to make additional share purchases if the guideline is no longer met due to a reduction in stock price, as long as the Director's ownership level is not reduced as a result of share sales.

Other

Directors are reimbursed for travel and other necessary business expenses incurred in the performance of their services for the Company. They are also covered under the Company's Business Travel Accident Insurance Policy and Directors' and Officers' insurance coverage. Principal Life has a Directors' Charitable Matching Gift Program and it matches the charitable gifts up to an annual aggregate amount for each Director of \$6,000 per calendar year. Directors' contributions to the United Way are also matched up to \$10,000 per year. These contributions are available during a Director's term and for three years thereafter. Directors who make gifts that are matched by Principal Life receive no financial benefit from the contribution because Principal Life receives the charitable contribution tax deductions for the matching gifts. In lieu of the Directors' Charitable Matching Gift Program, Mr. Griswell participated in the Principal Life Matching Gifts Program as a retired employee of the Company.

Perquisites

Some Directors' spouses or partners have accompanied them in prior years to the annual Board strategic retreat. The Company has paid for some of their travel expenses and for some amenities for Directors and their spouses or partners at the retreat, such as meals and social events. In addition, Directors may purchase Principal Funds mutual funds at net asset value, as may employees. The total value of these perquisites is less than \$10,000 per Director. The Company provided office space for Mr. Griswell in his role as non-executive Chairman of the Board (January 1, 2009 through May 19, 2009) and until July 10, 2009. There was no incremental cost to the Company for Mr. Griswell using this office beyond

his term as Board Chairman.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section of the Proxy Statement explains the Company's compensation goals and how and why compensation decisions were made for the Company's "Named Executive Officers:"

Larry D. Zimbleman, Chairman, President and CEO;

Terrance J. Lillis, Senior Vice President and CFO;

John E. Aschenbrenner, former President Insurance and Financial Services;

Daniel J. Houston, President Retirement, Insurance and Financial Services; and

James P. McCaughan, President Global Asset Management.

The Company's Executive compensation program is designed to:

attract and retain talented executives who have the necessary experience and skills to do their jobs successfully;

tie the delivery of executive compensation to the achievement of the Company's long and short-term financial and strategic goals;

align the interests of executives and shareholders by having a significant portion of the executive's compensation in equity;

maximize the financial efficiency of the program from tax, accounting, cash flow and share dilution perspectives; and

support important corporate governance principles and established best practices.

The Human Resources Committee also reviews compensation for the Named Executive Officers and other Executives to ensure that it provides proper incentives without encouraging risk taking that is reasonably likely to have a material adverse effect on the Company. The Committee believes that the Company's Executive compensation is well aligned with the Company's business strategy, and that the performance metrics tie to the long term creation of shareholder value. Compensation includes an appropriate mix of short and long term elements. Further, the stock ownership guidelines ensure Executives will have significant economic interests tied to the long term performance of the Company.

As discussed below, the Committee uses a framework for the Annual Incentive Plan that encourages Executives to focus on a variety of performance objectives that are important in creating shareholder value. The long term nature of stock based incentive awards encourages Executives to appropriately understand and evaluate risk reward trade-offs and discourages excessive risk taking for short term gain. As a result, the Committee believes that our Executives are not incentivized to employ disproportionately risky growth strategies. The Committee therefore believes that the compensation program rewards executives for appropriately balancing reward and risk.

The Committee has also adopted an executive compensation recovery policy that applies to executive officers. The Company can recover incentive compensation (cash or equity) if the amount of the compensation was based on achievement of financial results that were subsequently restated, if, in the opinion of the Committee, the executive officer engaged in fraud or intentional misconduct that caused the restatement of the Company's financial statements, and the amount of the executive officer's incentive compensation or equity award would have been lower had the financial results been properly reported.

Introduction to 2009 Executive Compensation Decisions and Process

The Committee made calendar year 2009 compensation decisions for the Named Executive Officers based on the following key factors that are explained more fully below:

the Company's strategic and human resources objectives;

competitive data for the Peer Group (see page 24) and for a broader group of diversified financial services companies;

corporate and individual performance on key initiatives;

difficult economic conditions;

the CEO's compensation recommendations for other Executives;

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the advice of the Committee's consultant; and

how each element of compensation stands on its own and how it relates to the other elements of compensation as a whole.

Interaction with Compensation Consultant and Management

The Committee has the sole authority to retain, terminate and authorize the compensation payable to executive compensation consulting firms to advise the Committee. The Committee engaged Cook as its compensation consultant to advise the Committee on executive compensation program design and the amounts the Company should pay its Executives. Cook reports directly to the Committee regarding executive compensation. A representative from Cook attends meetings of the Committee, both with and without members of management present. The Nominating and Governance Committee also uses Cook to advise it on compensation for non-employee Directors. Cook does not and would not be allowed to, perform services for management. It receives no compensation from the Company other than for its work in advising these Board committees and has no other relationships with the Company.

Every other year, the Committee asks Cook to perform a comprehensive review of the Company's executive compensation program. The goals of the review are to assist the Committee in:

determining whether the Company's executive compensation program is appropriately designed to support the Company's strategic and human resources objectives;

determining whether the target executive compensation levels are competitive with the market and whether actual compensation levels are reasonable given the Company's performance relative to peers;

designing changes to executive compensation plans or programs, as appropriate; and

setting pay opportunities, benefits and perquisites for the next year.

During the years in which Cook does not conduct the study discussed above, the Committee reviews its executive compensation philosophy and objectives and makes determinations on base salaries, target levels and actual awards under incentive compensation plans and other matters the Committee decides should be addressed. These determinations are based, in part, on survey data provided by the Human Resources Department staff and such additional information from Cook as the Committee requests. Cook has reviewed the processes in which management develops the competitive data and informed the Committee that the methodology employed by management is appropriate.

A comprehensive study was undertaken by Cook in 2007 for 2008 Executive compensation, and again in 2009 for 2010 compensation. The study examined base pay, annual incentive design and targets, long-term incentive design and targets, non-qualified benefits, perquisites, stock ownership guidelines, severance and change of control policies. The process included interviews with Executives to discuss organizational strategy and the implications for human resources and compensation policy. Cook's analysis focused on the structure of the direct compensation provided (base salary, annual incentive and long-term incentives) and its link to the Company's strategic plan. The Company's compensation program was also reviewed relative to the programs of its Peer Group (see page 24) and the aggregate costs of the program. Further, as part of its study every other year, Cook performs an analysis to ensure that total share dilution and the economic costs of long-term incentives are at a reasonable and affordable level for the Company. Cook also reviewed the Executive compensation plans against potential risk areas in compensation design, and determined that the Company's Executive compensation programs are well designed and supportive of the Company's business strategy, and do not provide incentives to Executives to take inappropriate risks.

Overall Design Considerations of Our Executive Compensation Program

The principal elements of executive compensation are base salary, annual and long-term incentives, and benefits. The Company also provides limited perquisites, severance and change in control benefits as discussed in further detail later in this section.

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Annual compensation – base salary and annual bonus – is paid in cash. Long term incentive compensation is primarily provided through stock based awards. This mix of cash and equity makes it possible for the Company to attract highly skilled executives and ensure the appropriate link between pay, Company performance and results for shareholders.

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To ensure sufficient focus on achieving financial and strategic objectives and hold Executives most accountable for changes in shareholder value, the portion of total compensation provided in pay that varies based on performance increases with the importance of an Executive's role and responsibility. Because equity based compensation creates the strongest alignment between management and shareholder interests, the Committee believes that it should constitute at least as large a portion of total compensation as annual cash, and for the Named Executive Officers, equity-based compensation is the greater component of overall compensation.

The Committee also considers the tax consequences of each element of compensation, making reasonable efforts to maximize the tax deductibility of all elements of compensation under Section 162(m) of the Internal Revenue Code ("Tax Code"), which limits the Company from deducting annual compensation exceeding \$1,000,000 for our CEO and the three other most highly compensated Named Executive Officers (other than our CFO) who are in office on the last day of the fiscal year ("Covered Employees"). There is an exception to this rule for performance-based compensation. The Committee generally structures compensation for Covered Employees so that it qualifies for a tax deduction, but it may provide compensation to Covered Employees that is not deductible if it determines that it is appropriate to do so in light of other interests and goals, such as attracting and retaining key executives. For 2009, Messrs. Zimpleman, Aschenbrenner, McCaughan and Houston were Covered Employees.

Use of Compensation Data

The Committee reviews the group of companies it uses to compare Executive compensation practices (the "Peer Group") every other year as part of Cook's comprehensive study. Cook provides information and analysis and recommends an appropriate Peer Group after interviews with Committee members and management. Cook's recommendations for an appropriate Peer Group of public, similarly-sized, diversified financial services, insurance and asset management companies take into account the Company's and the competitors' strategy, mix of business and size (as measured primarily by annual revenues, market capitalization and total assets). The Committee makes the decision on the companies to be included in the Peer Group. The companies in the Peer Group used for 2009 compensation comparisons were:

CIGNA	Manulife
Franklin Resources	MetLife
Genworth Financial	Nationwide
Hartford Financial Services	Prudential Financial
Legg Mason	Sun Life Financial
Lincoln National	T. Rowe Price

These companies are the major competitors in one or more of the Company's businesses, but none represent the same business mix or emphasis characteristic of the Company. Some of these companies have higher market capitalization and revenue than the Company and some have lower market capitalization and revenue than the Company. For this reason, we target compensation for the Named Executive Officers at the median of the compensation of the named executive officers at the Peer Group companies.

Cook provides compensation information on an executive-by-executive basis and for the named executive officers of the Peer Group as a group with respect to their base salaries and annual and long-term incentive compensation. Base salaries and target annual and long-term incentive compensation for our Executives may be more or less than the median compensation of the Peer Group based on individual and/or Company performance and the importance of the position or Executive to the Company at the current time as well as other retention factors. Also, actual compensation received by the Executive fluctuates above or below target levels for incentive plans based on individual and Company performance, as measured by operating results and changes in shareholder value. The Committee reviews the Company's performance against the performance of Peer Group companies to confirm that the Company's compensation is reasonable relative to its financial performance.

In addition to the analysis of compensation relative to the Peer Group, annual data from published industry surveys produced by third parties provides additional context for the Committee's discussions⁽²⁾. Further, every two to three years, the Company's non-cash benefit programs are compared with those of more than 100 diversified financial services companies. This is a larger group than the Peer Group because the information is used in designing and evaluating our broad-based employee benefit programs. Benefit programs are also compared against those of local employers in Des Moines, Iowa, due to the Company's significant employee population in that location.

(2)

The surveys used were the LOMA Executive Survey, McLagan Investment Management Survey, McLagan Mutual Fund Administration Survey, McLagan Investment Sales and Marketing Survey, Towers Perrin Diversified Insurance Study of Executive Compensation, Towers Perrin Financial Services Executive Survey, Mercer Benchmark Database, Mercer Global Premium Executive Remuneration Suite Fortune 500 Study, and Watson Wyatt Top Management Survey. The names of the companies participating in these surveys are included in Appendix B.

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Each year, the Committee reviews the total compensation paid to the Executives by reviewing compensation reports, called tally sheets. The tally sheets include the dollar value of base salary, annual and long-term incentive awards earned, deferred compensation, outstanding equity awards, benefits, perquisites and potential payments for termination scenarios. The information enables the Committee to analyze the value of total compensation and compensation actually delivered versus the compensation opportunities originally established by the Committee. This information is an important part of the analysis used by the Committee in making future compensation decisions and in the design of the incentive plans, benefits and perquisites. The tally sheets are also used to help the Committee determine that the Executive compensation program is consistent with the Company's compensation philosophy and desired positioning relative to market data. The Committee used the tally sheets as a basis for considering changes to the components of the Executive compensation program, but made no adjustments as a result of the analysis in 2009, based on the Committee's determination that the program continues to meet the Company's objectives.

Base Salary

Base salary creates a level of compensation for Executives that is not dependent on Company performance and enables the Company to attract and retain highly skilled individuals at an affordable level of fixed expense. Salaries are intended to be competitive with the market for comparably talented executives. When determining base salary for each Executive, the Committee considers the Peer Group median for comparable executive positions as well as the survey data referenced above, the Executive's proficiency in a specific role, the Executive's work experience, the importance of the position to the Company, how difficult it would be to replace the Executive, and the Executive's performance. Salary increases, if any, generally take effect the first pay period in March of each year. Salary may also be reviewed when an Executive is promoted or has a significant change in responsibilities. Base salaries for Named Executive Officers were reduced 10% in March of 2009 as part of the Company's expense reduction efforts that were undertaken in response to the adverse economic conditions, and no Executive had any subsequent increase in base salary in 2009.

Annual Incentive Pay

The Named Executive Officers are eligible to earn annual cash bonuses under the Principal Financial Group, Inc. Annual Incentive Plan, which has been approved by our shareholders, and qualifies as performance based compensation under §162(m) of the Tax Code. These bonuses are intended to motivate the Named Executive Officers and to promote the achievement of our performance objectives and the strategic initiatives that are important to the Company's success.

This plan establishes a maximum annual bonus pool of 2% of annual income from the Company's continuing operations, minus net realized and unrealized gains and losses, as reported in the Company's financial statements ("Bonus Pool"). In addition, maximum bonuses are established under the Annual Incentive Plan for each participant. For 2009 these maximums were:

Named Executive Officer	Maximum Award as a Percentage of the Bonus Pool	Maximum Potential Award Payment
CEO (Zimpleman)	40% \$	8.9M
Second highest Paid Covered Employee (McCaughan)	20% \$	4.4M
Third highest Paid Covered Employee (Aschenbrenner)	13.33% \$	3.0M
Fourth highest Paid Covered Employee (Houston)	13.33% \$	3.0M
CFO (Lillis)	13.33% \$	3.0M

The Committee then applies negative discretion to determine the actual bonuses for the Named Executive Officers by reducing bonuses funded by the Annual Incentive Plan formula, using the following framework. First, the Committee sets the target and maximum annual incentive awards for each Named Executive Officer. For 2009,

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the Committee approved the following target awards for Named Executive Officers, expressed as a percentage of base salary.

Named Executive Officer	Target Award
Zimpleman	150%
Lillis	70%
Aschenbrenner	100%
Houston	100%
McCaughan	250%

Mr. Zimpleman's target award was increased from 125% to 150% for 2009 in recognition of his promotion to CEO. These target awards were established by the Committee to be at about the median of the Peer Group. Mr. Zimpleman's target award opportunity is greater than that of the other Named Executive Officers except for Mr. McCaughan because Mr. Zimpleman has overall responsibility for the Company and greater responsibilities than the other Named Executive Officers. The award opportunity for Mr. McCaughan was established by the Committee to be competitive with award opportunities of senior executives within asset management firms.

Next, the Committee reviewed past performance across several key financial measures and established a series of corporate and divisional quantitative goals to facilitate its assessment of the appropriate annual incentive compensation payable. Some of the goals were partially delegated to certain Named Executive Officers. The Committee did not assign any particular weighting to any of these goals; rather they were intended to provide guideposts to the Committee in exercising its negative discretion pursuant to the Annual Incentive Plan on the basis of its subjective evaluation of these factors. In determining Corporate performance for 2009, the Committee reviewed Company achievements on these key financial goals:

1. Achieve appropriate operating earnings and earnings per share

One of management's responsibilities is to lead the Company in achieving appropriate operating earnings and earnings per diluted share each year. For 2009, the target for operating earnings was set at \$715 million and earnings per diluted share of \$2.74. Actual Company results for operating earnings and earnings per share were \$804.1 million and \$2.69, respectively. Earnings per share were affected by the issuance of approximately 50 million additional shares of Common Stock in 2009. Absent that offering, the earnings per diluted share would have been \$3.07. In addition, Messrs. Aschenbrenner, Houston and McCaughan had operating earnings goals specific to the business units they oversee:

Named Executive Officer	Operating Earnings Goal	Operating Earnings Result
Aschenbrenner	\$103 million for Life	\$ 111.4 million
	\$103 million for Specialty Benefits	\$ 92.7 million
	\$54 million for Health	\$ 38.1 million
Houston	\$410 million	\$ 510 million
McCaughan	\$50 million	\$ 38.2 million

2. Achieve appropriate net income

The Committee also reviewed management's achievement of a strategy that appropriately positions the Company's investment portfolio for risk and reward and to produces the appropriate level of net income. A net income target range of \$365 million to \$460 million was established for 2009. Actual 2009 net income was \$589.7 million.

3. Execute on capital structure plans while maintaining weighted average cost of capital

In order for the Company to maintain its financial strength ratings and to be able to execute on its strategy, targets were set to ensure sufficient capital and liquidity. The measures for this goal included maintaining a risk based capital ratio, as defined by the National Association of Insurance Commissioners ("NAIC"), greater than 375% in order to maintain the risk based capital ratio appropriate for a AA rating established by Standard & Poor's, and to have total available capital resources in the range of \$400 million to \$800 million. At year end, the NAIC risk based capital ratio was 425% and total available capital was in excess of \$1.5 billion.

Table of Contents**4. Minimize credit loss**

A metric was established to measure whether we are appropriately managing our asset portfolio and reflecting losses and impairments. Ranges were established for after-tax credit losses for corporate credits (40-55 basis points) and mortgage loans (10-15 basis points). Actual 2009 after-tax credit losses for corporate credits were 53 basis points and actual 2009 after-tax losses for mortgage loans were 52 basis points. We believe the excess of 2009 actual mortgage loan losses over the target reflects an acceleration of the cumulative losses we expect to incur from this portfolio during the next 2-3 years as we emerge from the current recession, and not an increase in total losses.

5. Achieve identified sales growth

Growth targets were established for each of the Company's lines of business. The following chart shows actual 2009 sales growth compared to the targets:

Business Unit	Target	Result
Retirement and Investor Services sales growth	\$ 21 billion	\$ 13 billion
Principal Global Investors revenue from new sales	\$ 12.6 million	\$ 8.6 million
Life new premium	\$ 250 million	\$ 136 million
Specialty Benefits premium and fees	\$ 1.4 billion	\$ 1.3 billion

In making decisions for awards under the Annual Incentive Plan, the Committee also considered that Retirement and Investor Services, managed by Mr. Houston, excelled at aligning expenses with revenue and exceeded its operating earnings goal despite not meeting the sales goal. The operating earnings results for the business areas managed by Messrs. Aschenbrenner and McCaughan were below goal, as were sales.

Final Annual Incentive Pay Award Determination

The following table shows the annual incentive award for each of the Named Executive Officers, as determined by the Committee in its discretion at its February 23, 2010 meeting, based on the factors set forth above. The column entitled "Reduction from Maximum Award" represents the negative discretion exercised by the Committee to reduce the maximum bonuses established under the Annual Incentive Plan to the awards paid.

Named Executive Officer	2009 Salary Earned	2009 Target	Individual Score	Final Award	Reduction from Maximum Award
Zimpleman	\$ 741,539	150%	100%	\$ 1,112,308	\$ 7,787,691
Lillis	\$ 295,689	70%	100%	\$ 206,982	\$ 2,793,018
Aschenbrenner	\$ 546,885	100%	90%	\$ 492,196	\$ 2,507,804
Houston	\$ 427,312	100%	100%	\$ 427,312	\$ 2,572,686
McCaughan	\$ 523,712	250%	90%	\$ 1,178,351	\$ 3,221,649

Executives may defer annual cash incentive awards into a nonqualified supplemental savings plan ("Excess Plan"), as shown in the Non Equity Incentive Compensation column of the Summary Compensation Table, described on page 33.

Long-term Incentive Compensation

The long-term incentive compensation program is designed to ensure that the interests of Executives are aligned with those of shareholders so that the compensation actually received by the Executives reflects both the degree to which multi-year financial objectives are achieved and shareholder value is increased. A long-term focus is critical because the Company competes in businesses in which long-term performance is important, such as retirement products, life insurance and asset management. The long-term incentive compensation program also encourages cooperation among Executives, some of whom represent various business divisions, in pursuing corporate-wide goals.

The Committee establishes a target long-term award opportunity for each Named Executive Officer stated as a percentage of each Executive's base salary based on Peer Group and survey data, referred to above, and the advice of its consultant. The Committee uses the following factors to adjust the target award opportunity and determine the actual percentage of base salary to be awarded to each Named

Executive Officer ("Award Granted"): current competitive market data, the Executive's past performance, the Executive's current compensation, any retention

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concerns, the importance of the Executive to the Company over the long term, the potential impact the Executive could have on the Company's results, and the Executive's performance relative to the Executive's peers within the Company. However, grants are generally administered such that the aggregate grants do not exceed the sum of the target grants for all participants. The Targets and Adjusted Target Award Opportunities for 2009 were:

Named Executive Officer	Target	Award Granted
Zimpleman	500%	450%
Lillis	175%	150%
Aschenbrenner	275%	250%
Houston	275%	275%
McCaughan	275%	300%

Mr. Zimpleman's award opportunity is greater than that of the other Named Executive Officers because he has overall responsibility for the Company. In addition to the annual grants referred to above, Messrs. Houston and McCaughan each received an additional one time restricted stock unit grant equivalent to one times individual base salary on February 24, 2009. These special one-time grants were made both to enhance the retention effect of the Company's equity awards and to increase the interest of each of these Executives in the Company's common stock, in light of Mr. Houston's increase in responsibilities during 2009, and in recognition of Mr. McCaughan's role in the growth of the Principal Global Investors operations over the past five years. These restricted stock unit awards are subject to a three year cliff vesting schedule.

The Committee approved changes to the design of the Company's long-term incentive compensation plan starting with the 2009 - 2011 plan cycle. These changes addressed the impact of market volatility on the Company and the ability of the Company to continue to motivate, attract and retain Executives in uncertain market conditions.

In 2008, a target long-term incentive grant value was established as a percentage of base salary. This grant value was delivered through a combination of stock options and Performance Share Awards ("PSAs"). However, as a result of the Company's shift to more financial market-sensitive, fee-based business, return on equity and operating Earnings Per Share ("EPS") are being impacted more by stock market volatility and less by management's operational performance. As a result, uncontrollable market volatility affects the program's ability to support the objectives of attracting, retaining and motivating executives. Several alternatives to address this issue were considered. Given the difficulty of setting multi-year performance goals and the volatility in the financial markets, in 2009 the Committee determined that the simplest and most effective approach was to replace the PSA program with a combination of performance based RSUs and stock options for Executive Vice Presidents and above. RSUs granted in 2009 will not vest unless the Company achieves an established seven percent Return on Equity ("ROE") threshold over the three year performance period. In addition, a percentage of the equity award formerly granted in PSAs was granted in stock options, to maintain the alignment of the interests of executives with those of shareholders.

Further, in 2009 a change was made in the components of the long term incentive compensation awards for Senior Vice Presidents, who received 50% of their award in options, 25% in RSUs and 25% in long term performance units, which will be paid in cash. This design change helped conserve the stock available under the plans and reduced potential dilution. The performance unit component was adjusted, based on the 2009 Principal Annual Plan results (as described below), which was determined in February of 2010. One-half of the long-term cash performance units awarded in 2009 will vest on December 31, 2010 with the remaining one-half vesting on December 31, 2011.

As a Senior Vice President, Mr. Lillis was awarded 25% of his long term incentive grant value in long term performance units. The final value of Mr. Lillis' long term cash performance units is \$119,625 as the award value was paid at target based on the 2009 Principal Annual Plan corporate result of 100%. The Company's 2009 Balanced Scorecard measures provided the goal framework for the Principal Annual Plan. At the end of the year, the Committee reviewed Company achievements, including return on equity, earnings per share, operating earnings, liquidity, rating agency financial strength ratings and GAAP equity, as well as other factors the Committee felt were relevant. The Committee also reviewed the economic assumptions underlying the goals against actual results in the market.

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Changes for 2010

As noted above, Cook conducts a comprehensive review of the Company's Executive compensation program every other year. Such a study was conducted in 2009 for 2010 compensation. The companies in the Peer Group used for 2010 compensation comparisons are listed below. As a result of the most recent review, given the current mix of the Company's business lines (reflecting a greater emphasis on asset management), a decision was made to omit Nationwide, as it became a private company in 2009, and to add Ameriprise Financial Inc.

Ameriprise Financial	Lincoln National
CIGNA	Manulife
Franklin Resources	MetLife
Genworth Financial	Prudential Financial
Hartford Financial Services	Sun Life Financial
Legg Mason	T. Rowe Price

Starting in 2010, for the Named Executive Officers, one-half of the Adjusted Target Award Opportunity will be granted in stock options and one-half in performance based RSUs that vest based on both continued service and the achievement of certain financial objectives over a three-year period (with each three-year period treated as a "Performance Cycle"). The weighting is not based on a specific formula or algorithm, but rather is intended to create a balance, based on the Committee's judgment, which may change from time to time, between the achievement of specific operating performance objectives and changes in shareholder value. Realized compensation may vary considerably from the Adjusted Target Award Opportunity based on the Company's performance and changes in share price that occur after the grant.

For the 2010 performance based RSUs, the performance requirement is to achieve pre-determined average ROE or cumulative operating income ("OI") targets. For this purpose, the ROE criteria require attaining a simple average ROE of 5% and cumulative OI of \$1 billion for the three calendar years during the performance period. If neither the ROE nor the OI objective is met, no performance based RSUs will be earned or paid out. If either the ROE or OI objectives is met or exceeded, the number of units earned is determined using performance scales based on average ROE and average Book Value per Share ("BV/Share") over the performance period.

Depending on the actual ROE and book value per share achieved, Executives may earn 0 or between 25% and 150% of the target number of units that were granted at the beginning of the performance cycle. To receive a target award, the Company must have an average ROE of 12% and an average BV/share of \$27.00, and a maximum award (150% of target) will be paid at an average ROE of 15% and an average BV/share of \$35.00. The minimum award (50% of target) will be paid at an average ROE of 6% and an average BV/share of \$23.00. Straight line interpolation is used to determine awards for performance between minimum and target and between target and maximum. The BV/share measure was selected because of its focus on capital efficiency and growth, which are key indicators of long-term success. When combined with the OI measure used in the Annual Incentive Plan, use of ROE and BV/share for this portion of the long-term incentive ensures a balanced focus on both short-term and multi-year profitability, growth and the efficient use of capital. Executives may defer the receipt of performance based RSUs that are earned and would otherwise be paid shortly after the performance period ends.

Stock Ownership Guidelines

Executives are required to own stock in the Company to ensure their interests are aligned with the shareholders' interests and long term performance of the Company. This requirement has been based on multiples of base salary and job level. Executives were required to obtain the specified level of stock ownership within five years of attaining their job level. The amount of stock ownership is determined by multiplying the shares or interests owned by the stock price at any given point in time. Once this guideline was met, Executives were not required to make additional share purchases if the guideline was no longer met due to a reduction in stock price, as long as the Executive's ownership level is not reduced as a result of share sales. All of the Named Executive Officers meet these guidelines or are on track to meeting them.

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The guidelines are:

Executive Level	Ownership Value as a Multiple of Base Salary
CEO (Zimpleman)	5 times
Division Presidents and Executive Vice Presidents (Aschenbrenner, Houston and McCaughan)	3 times
Senior Vice Presidents (Lillis)	2 times

Starting in 2010, the stock ownership guidelines will change. Although the multiple of salary that is required to be owned in stock will not change, there will no longer be a five year time period in which to meet the guideline. Instead, Executives will be required to retain a portion of the "net profit shares" resulting from equity based long term incentive plan grants. Net profit shares are the shares remaining after payment of the option exercise price and taxes owed at time of exercise, vesting of restricted stock or earn out of performance shares. The percentage of profit shares that must be retained until the multiple of salary guidelines are met are shown below:

Executive Level	Retention Ratio	Multiple of Base Salary
CEO (Zimpleman)	75%	5 times
Division Presidents and Executive Vice Presidents (Aschenbrenner, Houston and McCaughan)	50%	3 times
Senior Vice Presidents (Lillis)	20%	2 times

Trading Policy

The Company prohibits employees, including executive officers, from purchasing any Company securities on margin (except for the exercise of stock options), engaging in short sales or trading in any put or call options.

Benefits

In 2009, all of the Named Executive Officers participated in Principal Life's broad-based employee benefits program, including a qualified pension plan, a 401(k) plan, group health and disability coverage, group life insurance, a discounted employee stock purchase plan, paid time off, and flexible spending account plans. Principal Life also offers defined benefit and defined contribution non-qualified retirement plans (the "DBNQ" and the Excess Plan). These benefits are offered to attract and retain talent within the organization and provide long-term financial security to employees. The DBNQ helps the Company attract mid-career Executives and retain Executives by providing competitive retirement benefits. The DBNQ is coordinated with the qualified pension plan and is designed to restore benefits that otherwise would accrue to Executives in the absence of Tax Code limitations on the qualified pension plan. The narrative to the Pension Benefits Table on pages 38-39 provides additional information about the DBNQ and the qualified pension plan. Principal Life maintains the Excess Plan to help attract and retain Executives by allowing executives to save for retirement and to provide matching contributions on those savings, without regard to the limitations imposed by the Tax Code on 401(k) plans. The narrative to the Non-Qualified Defined Contribution and Other Deferred Compensation Plans Table on pages 40-41 provides additional information about the Excess Plan.

Effective January 1, 2010, Mr. McCaughan no longer participates in the qualified pension plan, DBNQ and Excess Plan. This change was the result of a compensation and benefit review of asset management companies that showed that these are not common benefits for that type of company. This change also applied to other investment professionals within Principal Global Investors.

Effective January 1, 2006, Principal Life made several changes to the broad-based employee retirement program that affected all employees, and similar changes were also made to the corresponding DBNQ and Excess Plan. In general, the pension and DBNQ benefit formulas (both traditional and cash balance) were reduced and the 401(k) matching contribution was increased. Employees who were ages 47 or older with at least ten years of service on December 31, 2005, could elect to retain the prior benefit provisions. Employees who elected to retain the prior benefits are referred to as "Grandfathered Choice Participants." These changes were made to better align the pension and 401(k) plans with current market practice, while not adversely impacting more tenured employees.

The value of the retirement and savings plans are targeted to be, in the aggregate, slightly above the median of diversified financial services companies because a large portion of the Company's business centers on the sale of retirement products. The traditional pension plan benefit for Grandfathered Choice Participants has a market

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value above the median and the 401(k) plan match for Grandfathered Choice Participants is below market median. These benefits, too, were originally designed to be slightly above market median to attract and retain employees. As retirement plans evolved in the marketplace, their value has changed, leading to the realignment with market in 2006.

All other benefits are targeted at market median in the aggregate, which supports the Company's benefit strategy and aids in attracting and retaining talent.

Change of Control and Separation Pay

The Committee believes it is in the best interests of the Company and its shareholders to:

assure that the Company will have the continued service of its Executives;

reduce the distraction of these Executives that would result from the personal uncertainties caused by a pending or threatened Change of Control;

encourage the Executives' full attention and dedication to the Company; and

provide the Executives with compensation and benefits upon a termination related to Change of Control that are competitive with those of similar businesses.

For these reasons, the Company has entered into "Change of Control" employment agreements with each of the Executives. These agreements would help the Executives more fairly evaluate a potential acquisition of the Company, particularly when the acquisition would result in termination of the Executive's employment. The terms of and benefits provided under these Change of Control employment agreements are based on market practice and do not impact the decisions made regarding other components of the Named Executive Officers' compensation. When entering into these agreements, the Committee reviewed survey data and the Change of Control practices of other public insurance and financial services companies. The Committee continues to review market practices in this area for potential future changes in these agreements.

All benefits provided to the Executives upon a Change of Control are paid after both a Change of Control and qualifying termination of employment have occurred (sometimes referred to as a "double-trigger"), except the then current value of the Executive's Excess Plan and DBNQ will be paid upon a Change of Control to ensure that the value of those plans does not erode upon the sale of the Company or other transaction resulting in a Change of Control.

The Company's severance plans cover employees whose employment is terminated by the Company due to a reorganization or reduction in the workforce. Additional payments may be permitted in some circumstances as a result of negotiations with Executives, particularly when the Company requests additional covenants from the Executives. Terms of the severance provisions for Mr. Zimpleman were based on market practice, and did not impact the decisions made regarding other components of his compensation.

Perquisites

The Company has few perquisites for Executives that are not offered to all employees, however Executives receive one physical examination per year.

Beginning in June 2009, the Principal Financial Group Foundation, Inc. and/or Principal Life matches one half of charitable gifts made by employees of Principal Life, its domestic subsidiaries and affiliates to institutions of higher learning (with an annual maximum of \$3,000), public and private K-12 schools (annual maximum of \$500) and provides a dollar for dollar match for gifts to the United Way (no maximum). Prior to that time, the match was dollar for dollar up to the maximums indicated. Subject to the limitations contained in the Tax Code, Principal Life receives charitable contribution tax deductions for these matching gifts.

Human Resources Committee Report

The Human Resources Committee of the Company has reviewed and discussed the foregoing Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management, and based on such review

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and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Michael T. Dan, Chair
Elizabeth E. Tallett

Risk Assessment

In order to ascertain whether any compensation policies or practices are reasonably likely to have a material adverse effect on the Company, the Chief Risk Officer and members of the Human Resources Department reviewed all of the Company's incentive compensation plans. A summary of this information was then provided to and reviewed with the Human Resources Committee of the Board. Based on the analysis conducted, we have determined that, for all employees, the Company's compensation plans are designed to encourage behaviors that create and maintain shareholder value, and do not encourage excessive risk.

In reaching this determination, the following factors, among others, were reviewed: plan design, potential risks created by the plans, risk mitigation factors within plans, the mix of pay received by the participating employees (base vs. incentive), and whether historical payments were in line with the intended results. Governance practices regarding plan design and revisions were also reviewed.

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The following table sets forth the compensation paid to the Named Executive Officers for services provided to the Company and its subsidiaries during 2009.

Name	Year	Salary \$(1)	Bonus \$	Non Equity Incentive Compensation \$(2)(3)	Stock Awards \$(4)(5)	Option Awards \$(4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings(6)	All Other Compensation \$(7)	Total \$(8)
Zimpleman Chairman, President and CEO	2009	\$ 741,539	\$ 0	\$ 1,112,308	\$ 929,880	\$ 1,500,263	\$ 602,786	\$ 22,247	\$ 4,909,023
	2008	\$ 737,475	\$ 0	\$ 0	\$ 2,000,000	\$ 2,214,838	\$ 1,525,902	\$ 54,719	\$ 6,532,934
	2007	\$ 620,354	\$ 0	\$ 682,389	\$ 1,249,782	\$ 1,348,081	\$ 1,391,557	\$ 65,846	\$ 5,358,009
Lillis	2009	\$ 295,689	\$ 0	\$ 326,607	\$ 88,283	\$ 153,398	\$ 192,729	\$ 10,794	\$ 1,067,500
Senior Vice President and CFO	2008	\$ 286,181	\$ 64,104	\$ 0	\$ 188,796	\$ 313,650	\$ 260,647	\$ 12,514	\$ 1,125,892
Aschenbrenner former President Insurance and	2009	\$ 546,885	\$ 0	\$ 492,196	\$ 380,996	\$ 614,692	\$ 613,120	\$ 22,042	\$ 2,669,931
	2008	\$ 587,115	\$ 187,877	\$ 0	\$ 811,250	\$ 898,420	\$ 1,081,764	\$ 33,611	\$ 3,600,037
	2007								