

PRINCIPAL FINANCIAL GROUP INC
Form DEF 14A
April 06, 2011

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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.
 - (1) Title of each class of securities to which transaction applies:
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(3) Filing Party:

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April 6, 2011

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Principal Financial Group, Inc., to be held on Tuesday, May 17, 2011, at 9:00 a.m., Central Daylight 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 (if these materials were received by mail) 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 17, 2011

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 17, 2011, at 9:00 a.m., Central Daylight Time. Matters to be voted on are:

1. Election of four Class I Directors;
2. A proposal for the annual election of Directors;
3. An advisory vote on executive compensation;
4. An advisory vote on the timing of future advisory votes on executive compensation;
5. Ratification of the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2011; and
6. 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 28, 2011, 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 28, 2011. Please bring that documentation to the meeting to register.

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By Order of the Board of Directors

JOYCE N. HOFFMAN

Senior Vice President and Corporate Secretary

April 6, 2011

Important Notice Regarding Availability of Proxy Materials for the Shareholder Meeting to be held on May 17, 2011. The 2010 Annual Report, 2011 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 17, 2011, at 9:00 a.m., Central Daylight 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. These materials were first made available, sent or given to shareholders on April 6, 2011.

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 2011 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;

A proposal for the annual election of Directors;

An advisory vote on executive compensation;

An advisory vote on the timing of future advisory votes on executive compensation; 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 28, 2011, ("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 321,304,878 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 proposal for the annual election of Directors will be approved if at least three-fourths ($\frac{3}{4}$) of the outstanding shares of Common Stock that are entitled to vote on the proposal are cast for the proposal.

The advisory vote to approve the Company's executive compensation policies will be approved if the votes cast for the proposal exceed those cast against the proposal.

The advisory vote on frequency of future advisory votes on executive compensation asks shareholders to express their preference for one of three choices for future advisory votes on executive compensation every year, every other year, or every three years. Abstentions have the same effect as not expressing a preference.

The appointment of the independent auditors 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, the proposal for the annual election of Directors, the advisory vote on executive compensation and the proposal to ratify the appointment of the independent auditors. For the advisory vote on timing of future advisory votes on executive compensation, you will be asked to indicate your preference for votes every year, every other year or every three years, or you may abstain from voting.

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 Daylight Time, on May 17, 2011.

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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 Daylight Time, on May 17, 2011.

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.

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How do I vote in person?

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.

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 Trust Company, N. A.

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 proposal on the annual election of Directors, "For" approval of the Company's executive compensation policies, "For" a vote on executive compensation to be held every three years, 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, if your stock is held by a broker or bank, evidence of your ownership of Common Stock as of March 28, 2011. 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, Inc.

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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.

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How do I submit a shareholder proposal for the 2012 Annual Meeting?

The Company's next annual meeting is scheduled for May 22, 2012. Proposals should be addressed to the Corporate Secretary. If a shareholder wishes to have a proposal considered for inclusion in next year's proxy statement, it must be received by December 8, 2011. In addition, the Company's By-Laws provide that any shareholder wishing to propose any other business at the annual meeting must give the Company written notice by February 17, 2012, and no earlier than January 18, 2012. That notice must provide certain other information as described 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.

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 Trust Company, N.A. 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. All of the nominees are currently Directors of the Company.

Nominees for Class I Directors Whose Terms Expire in 2014

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 Human Resources Committee since November 29, 2010. She has also served on the Strategic Issues Committee.

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, executive compensation, strategic planning, technology and mergers 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.

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Jocelyn Carter-Miller, age 53, 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 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, contract, catalog and e-commerce businesses 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, mergers and acquisitions, product development, project management, strategic planning, technology 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.

Gary E. Costley, age 67, 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 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 1997 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, international operations, public affairs, corporate development, strategic planning, technology, quality management, executive compensation and mergers and acquisitions, 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., where he serves as Lead Director, Prestige Brand Holdings, Inc., where he serves as Lead Director, and Tiffany & Co., where he serves as Chair of the Human Resources Committee. 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.

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Dennis H. Ferro, age 65, has been a Director of the Company and Principal Life and a member of the Finance and Strategic Issues Committees since November 1, 2010.

Mr. Ferro served as President and Chief Executive Officer of Evergreen Investment Management Company, an asset management firm, from 2003 to 2008. Evergreen had assets under management of \$175 billion on December 31, 2008, served more than four million individual and institutional investors through management of a broad range of investment products including institutional portfolios, mutual funds, variable annuities and other investments, and was led by 300 investment professionals. Mr. Ferro was the Chief Investment Officer of Evergreen from 1999 to 2003. From 1994 to 1999, he was Executive Vice President of Zurich Investment Management Ltd. and Head of International Equity Investments, and from 1991 to 1994 was Senior Managing Director of CIGNA International Investments. Prior to 1991, he held positions with Bankers Trust Company in Japan, as President and Managing Director, and in Florida and New York. In addition to leading and being responsible for financial management of Evergreen Investment Management Company, Mr. Ferro has executive-level experience in asset management, investment portfolio management, financial services, international operations, product development, marketing and distribution, strategic planning, executive compensation, risk management and mergers and acquisitions.

He earned a bachelor's degree from Villanova University and an MBA in finance from St. John's University. Mr. Ferro is a Chartered Financial Analyst ("CFA").

Mr. Ferro was a director of one other public company at times during the past five years: NYMAGIC, Inc. He is a member of the Investment Committee of the American Bankers Association.

A search firm identified Mr. Ferro as a Director candidate.

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Class II Directors Continuing in Office Whose Terms Expire in 2012

Richard L. Keyser, age 68, has been a Director of the Company and Principal Life since 2002. He has been a member of the Nominating and Governance Committee since 2003 and a member of the Human Resources Committee since November 29, 2010. He has also served on the Audit Committee and the Finance Committee.

Mr. Keyser was Chairman Emeritus of W.W. Grainger, Inc., an international distributor of products used by businesses to maintain, repair and operate their facilities, from April 2009 April 2010. He had been Chairman of the Board of Grainger since September 1997 and served as Grainger's 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 in international operations, notably China and Mexico; operational excellence; customer service; integrated distribution networks; marketing to individuals, businesses and institutions; electronic commerce; executive compensation; strategic planning; and mergers and acquisitions.

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 one other public company: Zebra Technologies Corporation. He was also a director of the following other public companies at times during the past five years: W. W. Grainger, Inc. and Rohm and Haas Company. Mr. Keyser was honored as the National Association of Corporate Directors 2010 Public Company Director of the Year.

Arjun K. Mathrani, age 66, 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 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, mergers and acquisitions, 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.

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Elizabeth E. Tallett, age 62, 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, a member of the Executive Committee since 2002 and a member of the Nominating and Governance Committee since November 29, 2010. 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, technology, executive compensation and mergers and acquisitions.

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 three other public companies: Coventry Health Care, Inc., IntegraMed America, Inc. and Meredith Corporation. She was also a director of the following other public companies at times during the past five years: Varian, Inc., Varian Semiconductor Equipment Associates, Inc. and Immunicon, Inc.

Class III Directors Continuing in Office Whose Terms Expire in 2013

Michael T. Dan, age 60, has been a Director of the Company and Principal Life since 2006. He has been Chair of the Human Resources Committee since February 2010, and a member of the Committee since 2006. He was Chair of the Strategic Issues Committee in 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 50,000 employees worldwide and operations in over 50 countries, with \$3.1 billion in revenues in 2010. 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, marketing and mergers and acquisitions. 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.

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C. Daniel Gelatt, age 63, 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 and Chair of the Strategic Issues Committee since November 29, 2010. He has also served as Presiding Director and Alternate Presiding Director, Chair of the Human Resources Committee and as a member of the Executive Committee.

Dr. Gelatt has been President of NMT Corporation since 1987. NMT is an industry leader in mobile mapping and workforce automation software and has been providing graphic imaging services to clients worldwide for more than 40 years. 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 software and non-linear optimization and executive-level experience in product development, marketing and strategic planning.

He earned his bachelor's and master's degrees at the University of Wisconsin and his MA and Ph.D. at Harvard University.

Sandra L. Helton, age 61, 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, investments, information technology and other corporate administrative functions, as well as extensive corporate governance experience.

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.

Ms. Helton is currently director and Chair of the Audit and Finance Committee of one other public company, Covance, Inc., and is a director of Lexmark International, Inc. 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.

Larry D. Zimpleman, age 59, 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 boards of directors of the American Council of Life Insurers and the Financial Services Roundtable and the board of trustees of Drake University.

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PROPOSAL TWO ANNUAL ELECTION OF DIRECTORS

The Board of Directors is recommending that shareholders vote "For" the proposal to implement the annual election of Directors, on a phased-in basis, as set forth below.

The governing document that describes how the Company is organized under Delaware law is its Certificate of Incorporation. The Certificate of Incorporation requires that the Directors be divided into three classes of approximately equal size, and that the classes of Directors be elected to serve staggered three-year terms. This is commonly referred to as a "classified board" structure, with only a portion of the full board standing for election each year. The four Directors in Class I are standing for election at the Annual Meeting with terms expiring in 2014. The Directors in Class II will stand for election in 2012 with terms expiring in 2015, and the Directors in Class III will stand for election in 2013 with terms expiring in 2016.

The Company adopted a classified board structure as part of our Demutualization and initial public offering in 2001. The Board of Directors recognized the advantages of a classified board structure in promoting continuity and stability in board membership. This continuity and stability allows the Company to pursue its strategy and the Board to focus on long term growth for the benefit of all shareholders. If only a portion of the Directors can be replaced in a single year's election, the Board's negotiating leverage is increased when dealing with a potential acquirer of the Company that may have a short term focus.

The Nominating and Governance Committee and the Board regularly look at the Company's corporate governance practices for continued effectiveness in the current environment. The Committee and the Board undertook a careful review of the classified board structure, including the often cited disadvantage that it does not afford shareholders the opportunity to evaluate and hold directors accountable on an annual basis. The Nominating and Governance Committee and the Board recognized that there are both advantages and disadvantages to a classified board structure, that corporate governance trends indicate companies are moving away from classified boards and that the Principal Financial Group is committed to good corporate governance. Thus, the Board determined to recommend to the shareholders that this proposal on the annual election of Directors be approved and adopted.

The Board of Directors recommends the amendments to the Company's Certificate of Incorporation set forth in Appendix A, to fully implement the annual election of Directors by 2016. If these amendments are approved at the Annual Meeting, the declassified Board structure would be phased-in as follows: The Class I Directors elected at this Annual Meeting, the Class II Directors elected at the 2012 Annual Meeting and the Class III Directors elected at the 2013 Annual Meeting will all be elected for their respective three-year terms. As these three-year terms expire, Directors will be elected for one-year terms. Thus, beginning in 2014 approximately one-third of the Directors will be elected for a one-year term, in 2015 approximately two-thirds of the Directors will be elected for a one-year term and in 2016 and thereafter all Directors will be elected for a one-year term. In addition, in accordance with Delaware law and once the annual election of Directors is fully implemented, Directors may be removed by the vote of shareholders with or without cause.

Delaware law provides that the shareholders must approve this recommendation of the Board of Directors to amend the Certificate of Incorporation before the amendments and these changes can be effective. The Certificate of Incorporation requires that three-fourths of the outstanding shares entitled to vote on this proposal approve the proposal for it to be adopted. If approved by the shareholders, the amendments to the Certificate of Incorporation will be effective upon filing with the Delaware Secretary of State, the Board of Directors will make conforming changes to the Company's By-Laws and the annual election of Directors will be implemented on a phased-in basis as explained in this proposal.

RESOLVED, that the Company's Certificate of Incorporation be amended as set forth in Appendix A.

The Board of Directors recommends that shareholders vote "For" this resolution.

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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. Zimbleman, and a Presiding Director, Elizabeth E. Tallett. Betsy J. Bernard is the Alternate Presiding Director. On May 19, 2009, the Board elected Mr. Zimbleman 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 Nominating and Governance Committee reviews the current assignments as Presiding Director and Alternate Presiding Director annually.

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 the Chairman jointly make the decisions on the Board's agenda for each regular quarterly 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 2010, 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 and feedback to the CEO 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 and governance 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 business and industry 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, Chief Information Officer, General Counsel, Controller, Chief Compliance Officer, internal auditor and business unit Presidents in identifying, assessing and managing financial, operational, and other business and industry risks through an entity-wide 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.

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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 meeting, management 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 to appropriately reflect 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; appetite for risk; 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 all 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 and the Committee's independent compensation consultant to evaluate the design and risk implications of the Company's 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 Finance Committee assists the Board in its oversight of particular risks. The Committee also reviews and provides 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 independence standards include the New York Stock Exchange requirements for independence and may be viewed in their entirety on the Company's website, www.principal.com. 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, 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 2011, 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.

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The Board affirmatively determined that the following Directors are independent: Ms. Bernard, Ms. Carter-Miller, Dr. Costley, Mr. Dan, Mr. Ferro, Dr. Gelatt, Ms. Helton, Mr. Kerr (who served on the Board until February 24, 2010), Mr. Keyser, Mr. Mathrani and Ms. Tallett. The Board also affirmatively determined that all current members (and Directors who were members in 2010) of the Audit, Human Resources and Nominating and Governance Committees are independent.

In applying the Board's independence standards referred to above, the Nominating and Governance Committee and the Board considered the following relationships and transactions which it considers to be categorically immaterial to the determination of a particular Director's independence. The Board considers these to be categorically immaterial due to the nature of the transaction and the amount involved (in each of the transactions described below, the annual payments made or received by the Company did not exceed the greater of \$1 million or 2 percent of the recipient's gross revenues):

Ms. Bernard, Ms. Carter-Miller, Dr. Gelatt, Ms. Helton, Mr. Kerr, Mr. Keyser and Ms. Tallett are customers of the Company's subsidiaries. Directors who were in office before the Demutualization were required to personally own an insurance policy or annuity contract issued by Principal Life. All insurance policies, annuity contracts, agreements for trust services and bank accounts held by Directors are on the same terms and conditions offered to the public generally.

Brink's Company (of which Mr. Dan is CEO) has provided armored car transportation services to one of Principal Life's satellite offices in arms-length, ordinary course business transactions that have not exceeded \$10,000 in each of the last three years. The Gelatt family companies (of which Dr. Gelatt is the CEO) own insurance products issued by Principal Life.

Mr. Keyser, Mr. Kerr and Ms. Tallett were directors of for-profit entities with which the Company's subsidiaries have conducted arms-length, ordinary course business transactions.

The Nominating and Governance Committee and the Board also considered one relationship not specifically addressed as categorically immaterial under the independence standards referred to above:

Dr. Costley's son-in-law is a partner in a law firm that has 140 attorneys (93 of whom are partners) in four offices in different cities. A lawyer in a different office than Dr. Costley's son-in-law represents the Company in litigation involving three local insurance claim and pension plan legal matters, and in 2010 we paid \$28,316 for this representation. The law firm was retained in the normal course of the Company's operations, without knowledge that Dr. Costley's son-in-law was a member of the firm, and Dr. Costley's son-in-law has no personal connection to this legal matter. The Company is regularly involved in litigation both as a plaintiff and as a defendant and retains many law firms throughout the world. The Nominating and Governance Committee and the Board concluded that this relationship is immaterial as to the Company, the law firm and Dr. Costley, and it does not impair Dr. Costley's independence.

Certain Relationships and Related Transactions

Nippon Life Insurance Company ("Nippon Life"), which held approximately 5.65% of the Company's Common Stock at the end of 2010, is the parent company of Nippon Life Insurance Company of America ("NLICA"). Nippon Life, NLICA 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 NLICA, which began business in 1991. Currently, Nippon Life and NLICA are customers of Principal Life and purchase retirement and financial services offered by Principal Life and its subsidiaries. NLICA paid Principal Life approximately \$9.8 million for third party administration services related to its group welfare benefit plans and approximately \$6,700 for wellness services during 2010. Nippon Life and NLICA also paid Principal Global Investors, LLC and its subsidiaries approximately \$926,000 for investment services in 2010, and paid Principal Life approximately \$185,000 for service related to its retirement plans in 2010. The Company owns approximately three percent of the common stock of NLICA.

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

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by the Human Resources Committee. The Company's Related Party Transaction Policy may be found at www.principal.com.

Board Meetings

The Board held eight meetings in 2010, and each of the Directors then in office attended more than 75 percent in the aggregate of the meetings of the Board and the 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 2010 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.

Committee Membership

Director	Audit	Human Resources	Nominating and Governance	Executive	Strategic Issues(1)	Finance
Betsy J. Bernard		Member effective 11/29/2010	Chair	Member	Member from 1/1/2010 until 11/29/2010	
Jocelyn Carter-Miller			Member			Member
Gary E. Costley	Member				Member	
Michael T. Dan		Member, Chair effective 2/24/2010			Chair 1/1/2010 - 11/29/2010	
Dennis H. Ferro					Member effective 11/29/2010	Member effective 11/29/2010
C. Daniel Gelatt	Member				Chair effective 11/29/2010	
Sandra L. Helton	Member					Chair
William T. Kerr		Chair until 2/24/2010		Member until 2/24/2010		
Richard L. Keyser		Member effective 11/29/2010	Member			Member until 11/29/2010
Arjun K. Mathrani	Chair			Member		Member
Elizabeth E. Tallett		Member	Member effective 11/29/2010	Member		
Larry D. Zimpleman				Chair		
Number of meetings in 2010	11	5	6	1	3	5

(1)

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The Strategic Issues Committee has the primary responsibility for planning the Board of Directors' annual strategic retreat.

Audit Committee

The Audit Committee is responsible for:

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

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

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 Chief Financial Officer,

The Chief Risk Officer and

the General Counsel.

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, 2010, 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.

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The Committee has received from Ernst & Young LLP the written disclosures and letter required by applicable requirements of the PCAOB 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, 2010, 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, 2011.

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

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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, 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.

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.⁽¹⁾ 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.

(1) Dennis H. Ferro joined the Board on November 1, 2010 and is standing for election at the Annual Meeting. As a new Director, Mr. Ferro was not included in this process.

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. Importantly, several Directors have led businesses or major business divisions as CEO or President (Ms. Bernard, Dr. Costley, Mr. Dan, Mr. Ferro, Dr. Gelatt, Mr. Keyser and Ms. Tallett). In addition, the following chart shows areas central to the Company's

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strategy, initiatives and operations for which Directors have specific training and executive level experience that assists the Board and its committees in carrying out their responsibilities.

	Accounting and Finance	Asset Mgmt/Inv Banking	Consumer (Retail)	Exec- utive Comp	Financial Services	Intern'l	Marketing	M & A	Product Devel- opment	Risk Mgmt	Strategic Planning	Tech- nology
Bernard			X	X			X	X	X		X	X
Carter-Miller	X		X			X	X	X	X		X	X
Costley			X	X		X	X	X	X		X	X
Dan			X	X		X	X	X	X	X	X	
Ferro		X	X	X	X	X	X	X	X	X	X	
Gelatt							X		X		X	X
Helton	X	X				X					X	X
Keyser			X	X		X	X	X	X		X	X
Mathrani	X	X			X	X				X		
Tallett				X		X	X	X	X		X	X

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 has 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;

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;

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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 ("PrinPay 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

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.

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 Frederic W. Cook & Co., Inc. ("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. As requested by the Committee Chair, a representative from Cook attends some 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. No conflicts of interest have arisen in connection with Cook's work for the Nominating and Governance or Human Resources Committees.

Every other year, Cook performs a comprehensive review of the Company's Executive compensation program 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 a compensation study, the Committee bases its compensation decisions, in part on survey data provided by the Human Resources Department staff and additional information from Cook as the Committee requests. Cook has reviewed the processes by which management develops the competitive data and believes that the methodology employed by management is appropriate.

Performance Goal Setting Process

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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.

In November 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 present information to the Board of Directors on how the goals and initiatives were developed and how difficult they will be to achieve. The Finance Committee, after reviewing underlying assumptions, key drivers of financial performance, trends and business opportunities, provides guidance to the Board and Human Resources Committee on the appropriateness of management's preliminary financial goals, including the "stretch" component in the goals. The Human Resources Committee reviews the preliminary goals, including the individual goals the CEO

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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 final goals for the Company, the CEO and the other individual Executives are determined by the Human Resources Committee after the Finance Committee and the Board of Directors have provided further review and guidance based on year-end financial results.

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 2010.

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, and which provides 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 Director compensation program is generally reviewed annually. The Nominating and Governance Committee uses Cook to advise on Director compensation. During its 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 (see page 26 in the Compensation Discussion and Analysis). As it does for Executive compensation, the Company believes targeting Director compensation at approximately the median of the Peer Group is appropriate.

Cook conducted a review in May of 2010 and reported to the Nominating and Governance Committee that our Director compensation program is well-structured and is aligned with both best practices and competitive practices. Cook also reported that the annualized value of the total program (cash and equity) was currently between the 25th percentile and median of the Peer Group. On the Committee's recommendation, the Board restored the 10% cash compensation pay reduction that was instituted in March of 2009, positioning our total program going forward at the Peer Group median. Also effective on May 17, 2010, an annual retainer of \$18,000 was established for the chair of the Finance Committee, a new Board Committee as of January 1, 2010. There were no other changes to the Director compensation program in 2010.

Restricted Stock Unit Grants

Non-employee Directors receive equity compensation in the form of an annual grant of \$95,000 in restricted stock units ("RSUs"). RSUs are granted at the annual meeting, vest in full at the next annual meeting, and are required to be deferred until at least the date the Director leaves the Board. At payout, the RSUs 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.

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 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.

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Fees Earned by Directors in 2010

The following table summarizes the compensation earned by non-employee Directors in 2010.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Total (\$)
Betsy J. Bernard	\$ 120,370	\$ 95,014	\$ 215,384
Jocelyn Carter-Miller	\$ 105,440	\$ 95,014	\$ 200,454
Gary E. Costley	\$ 105,170	\$ 95,014	\$ 200,184
Michael T. Dan	\$ 120,270	\$ 95,014	\$ 215,284
Dennis H. Ferro(2)	\$ 43,800	\$ 51,416	\$ 95,216
C. Daniel Gelatt	\$ 106,670	\$ 95,014	\$ 201,684
J. Barry Griswell(3)	\$ 10,400	\$ 0	\$ 10,400
Sandra L. Helton	\$ 125,340	\$ 95,014	\$ 220,354
William T. Kerr(4)	\$ 1,800	\$ 0	\$ 1,800
Richard L. Keyser	\$ 106,240	\$ 95,014	\$ 201,254
Arjun K. Mathrani	\$ 130,340	\$ 95,014	\$ 225,354
Elizabeth E. Tallett	\$ 116,570	\$ 95,014	\$ 211,584

- (1) The amounts shown in this column reflect the grant date fair value of awards made in 2010, 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. Ferro joined the Board on November 1, 2010 and was awarded a pro-rated grant of RSUs based on his start date.
- (3) Mr. Griswell retired from the Board on May 18, 2010.
- (4) Mr. Kerr resigned from the Board effective February 24, 2010.

The following chart shows how non-employee Director fees changed in 2010 after the 10% compensation reduction, implemented in March 2009, was restored to previous levels effective May 17, 2010:

	Before May 17, 2010	On and After May 17, 2010
Annual Retainers(1)		
Board	\$58,500	\$65,000
	\$95,000 in RSUs	\$95,000 in RSUs (no change)
Committee Chairs		
Audit	\$18,000	\$20,000
Human Resources	\$15,750	\$17,500
Finance	N/A (2)	\$18,000
Nominating and Governance	\$13,500	\$15,000
Other Committees	\$4,500	\$5,000
Presiding Director	\$13,500	\$15,000
Attendance Fees		
Board Meeting	\$2,250 per day	\$2,500 per day
Telephonic Board Meeting	\$900	\$1,000
Committee Meeting	\$1,170 if held on the day of or day prior to a Board meeting.	\$1,300 if held 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.	\$1,500 if held other than on the day of or day prior to a Board meeting.
Telephonic Committee Meeting	\$900	\$1,000

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- (1) Cash annual retainers are paid in two semi-annual payments, in May and November, on a forward-looking basis.
- (2) The Finance Committee was created effective January 1, 2010, but no compensation was approved for the Committee Chair until May 17, 2010.

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As of December 31, 2010, each Director had the following aggregate number of outstanding stock options and RSUs as a result of Director compensation in 2010 and prior years, including additional RSUs as the result of dividend equivalents:

Name	Total Stock Options Outstanding at Fiscal Year End 2010 (shares)	Total RSUs Outstanding at Fiscal Year End 2010 (shares)
Betsy J. Bernard	7,820	15,007
Jocelyn Carter-Miller	7,820	16,728
Gary E. Costley	7,820	15,007
Michael T. Dan	0	12,861
Dennis H. Ferro	0	1,940
C. Daniel Gelatt	7,820	19,166
J. Barry Griswell	0	0
Sandra L. Helton	7,820	15,007
William T. Kerr	7,820	0
Richard L. Keyser	7,820	18,741
Arjun K. Mathrani	3,820	17,880
Elizabeth E. Tallett	7,820	18,741

Deferral of Cash 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 S&P 500 Index 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 Excess Plan, described on page 43. The returns realized on these funds during 2010 are listed in the table under the heading "Qualified 401(k) Plan and Excess Plan," on page 44.

Perquisites and Reimbursement of Expenses

Principal Life has a Directors' Charitable Matching Gift Program and it matches the charitable gifts up to an annual aggregate amount for each non-employee 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.

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.

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. 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. All current Directors (except Mr. Ferro, who joined the Board on November 1, 2010) have met the goal of owning an interest in Company stock valued at five times the annual cash retainer for Board members. In addition, Directors must hold RSUs awarded through the Directors' compensation program at least until the Director's retirement or termination of service from the Board.

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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. Zimpleman, Chairman, President and CEO

Terrance J. Lillis, Senior Vice President and CFO

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

James P. McCaughan, President Global Asset Management

Norman R Sorensen, Chairman Principal International

Executive Summary

The Principal Financial Group's products and services include retirement solutions, life insurance, wellness programs and investment and banking products. The Company's Executive compensation program is designed to reward Executives who contribute to the achievement of the Company's business objectives and to attract, retain and motivate talented Executives to perform at the highest level and contribute significantly to the Company's success. The program is designed to tie the delivery of Executive compensation to the achievement of the Company's long and short term financial and strategic goals and align the interests of Executives and shareholders by having a significant portion of the Executives' compensation in equity.

In 2010, the Company:

Reported total Company operating earnings of \$845 million, a 15% increase over 2009;

Full Service Accumulation earnings were \$301 million, up 19% over 2009;

Mutual fund earnings of \$40 million, up 70% over 2009;

Record individual annuity operating earnings of \$119 million, up 18% over 2009;

Record earnings from Principal International of \$137 million, up 15% over 2009 despite the negative impact of the reduced ownership in BrasilPrev, our Brazilian joint venture, as of June 2010; and

Principal Global Investors reported operating earnings of \$59 million, up 53% over 2009.

The Company also had strong total shareholder performance relative to the peer group used for compensation comparisons, with a total shareholder return of 37.7% in 2010, compared to an average total shareholder return of 17.6% for companies in the peer group:

Total Shareholder Return	
Company Name	2010
Principal Financial Group Inc.	37.7%

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Ameriprise Financial Inc.	50.1%
CIGNA Corporation	4.1%
Franklin Resources Inc.	6.4%
Genworth Financial Inc.	15.8%
Hartford Financial Services Group Inc.	14.7%
Legg Mason Inc.	20.8%
Lincoln National Corp.	12.1%
Manulife Financial Corporation	-8.6%
MetLife, Inc.	27.8%
Prudential Financial, Inc.	20.3%
Sun Life Financial Inc.	4.3%
T. Rowe Price Group, Inc.	23.2%

Average 17.6%

The Company also outperformed its peers in the turbulent years of 2007 - 2010:

2007 - 2010 peak-to-trough net income of 49%, compared to a peer group average of 136%;

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The Company's net income was positive during the 2007 - 2010 time period, which was not true for all of the companies in the peer group.

The objectives of our Executive compensation programs, which have not changed for several years, include paying for performance, aligning our Named Executive Officer's interests with those of our stockholders, and attracting and retaining qualified Executives. Our Executive compensation program is also designed to support important corporate governance principles and established best practices. For example:

The Human Resources Committee uses an independent compensation consultant to provide input on program design and implementation.

The Human Resources Committee regularly reviews an analysis of the Company's incentive compensation plans to ensure they are designed to encourage behaviors that create and maintain shareholder value and do not encourage excessive risk.

Our Executive compensation is, in large measure, highly variable and directly linked to our short term and long term financial and strategic goals and the performance of the Company's stock price over time.

Executives receive a significant portion of their total compensation opportunity in the form of equity based long term incentives and Executives are required to own stock in the Company to ensure that their interests are aligned with the shareholders' interests and long term performance of the Company.

Starting in 2010, Named Executive Officers will receive one-half of their Adjusted Target Award Opportunity in stock options and one-half in performance based RSUs ("PSUs") 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 PSUs, 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 the OI Objective requires attaining 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 PSUs 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.

There was no payout for the 2007 and 2008 performance share awards because the performance measures were not met.

The Company prohibits all 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

The Company has a compensation recovery policy to recover incentive compensation paid to Executive Officers 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.

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In 2010, we entered into new change of control agreements with Executives, with reduced benefits, including elimination of excise tax gross ups.

We do not provide perquisites to Executives that are not offered to all employees, with the exception of one physical examination per year, and we do not provide income tax gross-ups on perquisites.

Our programs are designed to be financially efficient, from tax, accounting, cash flow and share dilution perspectives. We make efforts to ensure tax deductibility of all compensation.

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2010 Executive Compensation Decisions

The Committee made calendar year 2010 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 below) and for a broader group of diversified financial services companies;

corporate and individual performance on key initiatives;

economic conditions;

the Chairman and CEO's compensation recommendations for other Executives;

the advice of the Committee's consultant;

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

A comprehensive study was undertaken by Cook 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 design and structure of the direct compensation elements (base salary, annual incentive and long term incentives) and their link to the Company's strategic plan. The Company's compensation program was also reviewed relative to the programs of its Peer Group (see below) and the aggregate costs of the program. 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, supportive of the Company's business strategy, and do not provide incentives to Executives to take inappropriate risks.

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). 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 add Ameriprise Financial, Inc. to the Peer Group, and to drop Nationwide, as it became a private company in 2009. The companies in the Peer Group for 2010 compensation comparisons were:

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

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These companies are the major competitors in one or more of the Company's businesses, but none represent the exact business mix of the Company. Because some of these companies have higher market capitalization and revenue than the Company and some have lower market capitalization and revenue than the Company, 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 levels. 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

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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 McLagan Investment Management Survey and Towers Watson U.S. Financial Services Studies Executive Database. The names of the companies participating in these surveys are included in Appendix B.

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 various 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 and severance programs. 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 2010, based on the Committee's determination that the program continues to meet the Company's objectives. The Committee solicits input on the CEO's performance from all Directors and reviews that information with him, and also receives information on the performance of other Executives relative to their goals and other performance measures.

The Committee also considers the tax and accounting 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 2010, Messrs. Zimpleman, Houston, McCaughan and Sorensen were Covered Employees.

Base Salary

Base salary creates a level of compensation for Executives that 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 pay increases in 2010 were effective on March 13, 2010 in connection with the Company's annual pay cycle. Executives' salaries were reduced by 10% in 2009 due to the economic crisis.

Table of Contents**Change in Base Salary(1)**

Name	2008	2009	2010	Percentage Increase from 2009 to 2010
Zimpleman	\$ 737,475	\$ 720,000	\$ 800,000	11.1%
Lillis	\$ 286,181	\$ 287,100	\$ 400,000	39.3%(2)
Houston	\$ 452,154	\$ 414,900	\$ 500,000	20.5%(3)
McCaughan	\$ 561,154	\$ 508,500	\$ 548,500	7.9%
Sorensen	\$ 457,808	\$ 415,800	\$ 450,000	8.2%

- (1) All Named Executive Officers had a 10% reduction in pay in 2009 with no increase in base salary until 2010.
- (2) Mr. Lillis received a substantial increase to bring his salary closer to the market median for his position.
- (3) In 2010, Mr. Houston assumed responsibility for the Company's Life, Health and Specialty Benefits Divisions, and his title changed from President Retirement Investor Services to President Retirement Insurance & Financial Services.

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 2010 these maximums were:

Named Executive Officer	Maximum Award as a Percentage of the Bonus Pool	Maximum Potential Award Payment
CEO (Zimpleman)	40%	\$ 8M
Second highest Paid Covered Employee (McCaughan)	20%	\$ 4M
Third highest Paid Covered Employee (Houston)	13.33%	\$ 2.7M
Fourth highest Paid Covered Employee (Sorensen)	13.33%	\$ 2.7M
CFO (Lillis)	13.33%	\$ 2.7M

The Committee applied 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 set the target and maximum annual incentive awards for each Named Executive Officer. Maximum annual incentive opportunities, after application of the Committee's negative discretion, are generally 200% of the target annual incentive opportunity. For 2010, the Committee approved the following target awards for Named Executive Officers, expressed as a percentage of base salary.

Bonus Targets (as a Percentage of Base Salary)		
Named Executive Officer	2009	2010
Zimpleman	150%	150%
Lillis	70%	75%
Houston	100%	125%
McCaughan	250%	250%
Sorensen	70%	70%

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

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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. Mr. Lillis's target award was increased to bring his cash compensation closer to the market median for his position. The target award for Mr. Houston increased when he took on additional responsibilities in 2010.

The Committee reviewed past performance across several key financial measures and a series of corporate and divisional quantitative goals to facilitate its assessment of the appropriate annual incentive compensation payable. 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 2010, 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 2010, the target for operating earnings was set at \$850 million and the target for earnings per diluted share was set at \$2.64. Actual Company results for operating earnings and earnings per share were \$911.1(3) million and \$2.62, respectively. In addition, Messrs. Houston, McCaughan and Sorensen had operating earnings goals specific to the business units they oversee:

(3)

This number reflects an adjustment of \$66.3 million of earnings from the Health Division that is no longer included in operating earnings due to the decision to exit this business. The operating earning goal of \$850 was set before the decision to discontinue this business was made.

Named Executive Officer	Operating Earnings Goal	Operating Earnings Result
Houston	\$525 million (Retirement & Investor Services)	\$ 584.4 million
	\$116 (Life)	\$ 101.2 million
	\$99 million (Specialty Benefits Division)	\$ 92.5 million
	\$20 million (Health Division)	\$ 31.4 million
McCaughan	\$65 million	\$ 58.5 million
Sorensen	\$125 million	\$ 136.9 million

2. Capital

Maintain a targeted National Association of Insurance Commissioners ("NAIC") risk based capital ratio above 350%. At year end, the NAIC risk based capital ratio was in excess of 400%.

3. Net Income

Lead the corporation in achieving a strategy that appropriately positions our investment portfolio for risk and reward and produces net income of between \$500 - 650 million. Actual net income for 2010 was \$666.3 million.

4. Minimize credit loss

A metric was established to measure whether we are appropriately managing and accounting for our investment portfolio. Ranges were established for after-tax credit losses for corporate credits (35 - 40 basis points) and commercial mortgage loans (45 - 65 basis points). Actual 2010 after-tax credit losses for corporate credits were 34.8 basis points and actual 2010 after-tax losses for mortgage loans were 33.5 basis points.

Table of Contents**5. Achieve identified sales growth**

Growth targets were established for each of the Company's lines of business. The following chart shows actual 2010 sales compared to the targets:

Business Unit	Target	Result
Retirement and Investor Services sales	\$ 17.22 billion	\$ 17.74 billion
Principal Global Investors revenue from new sales	\$ 13.6 million	\$ 11.09 million
Life new premium	\$ 172 million	\$ 164.7 million
Specialty Benefits premium and fees	\$ 1.32 billion	\$ 1.30 billion
Principal International	\$ 532.3 million(4)	\$ 557 million

(4)

Fee based revenue increased from \$532.3 million to \$589 million due to including the joint venture in China and reclassification of net investment income for Brazil.

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 28, 2011 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	2010 Salary Earned	2010 Target	Final Award	Reduction from Maximum Award
Zimpleman	\$ 781,538	150%	\$ 1,547,446	\$ 6,452,554
Lillis	\$ 373,946	75%	\$ 336,552	\$ 2,363,448
Houston	\$ 480,362	125%	\$ 720,542	\$ 1,979,458
McCaughan	\$ 539,269	250%	\$ 1,617,807	\$ 2,382,193
Sorensen	\$ 442,108	70%	\$ 389,939	\$ 2,310,061

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 43.

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 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.

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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 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. Realized compensation may vary considerably from the grant-date fair value of the Award Granted based on the Company's performance and changes in share price that occur after the grant. The Target Awards granted for 2010 were based on the Executives' performance in 2009, and are listed below. Some targets were increased between 2009 and 2010, and the Company generally does not grant an award at target the first year after the target has been increased.

Named Executive Officer	Target	Award Granted
Zimpleman	500%	375%
Lillis	225% (1)	175%
Houston	350% (2)	300%
McCaughan	275%	300%
Sorensen	175%	200%

(1) 175% in 2009.

(2) 275% in 2009.

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, in February 2010, Messrs. Lillis and Sorensen received grants of \$65,000 in RSUs for successful completion of equity and bond offerings made in 2009. Mr. McCaughan received an RSU grant of \$254,000 for retention purposes. Mr. Zimpleman also received an RSU grant of \$500,000, in recognition of his steady leadership in guiding the Company successfully through a difficult economic period and the successful completion of the equity and bond offerings made in 2009, putting the Company in a strong financial position. These restricted stock unit awards are all 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 difficulty in setting reasonable multi-year performance goals in the volatile and uncertain economic environment at the time and the ability of the Company to continue to motivate, attract and retain Executives in uncertain market conditions. In 2009, long term incentive compensation for Executives consisted of a combination of stock options and PSUs, where vesting of the PSUs is tied to the achievement of a return on equity threshold as well as continued service.

In 2010, as the economic environment began to stabilize, the Committee approved changes to the design of long term incentives to migrate back to a design similar to that used in the 2008 - 2010 plan cycle. In 2010, for the Named Executive Officers, one-half of the Award Granted was granted in stock options and one-half in PSUs that will 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").