Service Organization Control 1 Report (SOC 1)

For the period from October 1, 2015 to September 30, 2016

With management’s assertion and independent service auditor’s report including tests performed and related results.
December 1, 2016

This Service Organization Control 1 Report (SOC 1) covers the period October 1, 2015 through September 30, 2016. It meets the Attestation standards set forth by the American Institute of Certified Public Accountants. The SOC 1 Report is intended to be used in conjunction with the plan sponsor’s controls when assessing the risks of material misstatements of the plan sponsor’s financial statements.

In conjunction with the standards, Principal Life Insurance Company (Principal Life) has included a written Management Assertion Statement confirming:

- The description fairly represents the Retirement Plan Processing Services made available to plan sponsors.
- The controls related to the control objectives were suitably designed and operating effectively during the period covered by the report.

We continue to consistently demonstrate our commitment to meeting auditing standards in our retirement plan processing and compliance efforts. This report should help reduce the amount of time spent auditing your retirement plan and the cost associated with the audit.

The Kansas City Insurance Services Department of State Street Corporation (State Street – Kansas City) is the only subservice organization with controls carved-out of the Principal Life SOC 1 report. These controls could significantly impact the financial statements of users holding pooled separate accounts with multiple securities as the underlying assets (see table in Section V). Impacted users may refer to the State Street – Kansas City SOC 1 report, available on the Secure Plan Sponsor Website at principal.com, to analyze State Street’s controls over the valuation process.

If you have any questions about the information provided in this SOC 1 Report, please contact our Audit Support Team at:

- The Secure Plan Sponsor Website at principal.com
- 1-800-543-4015, extension 76844
Principal Life Insurance Company

Retirement Plan Processing Services

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Principal Life Insurance Company

Retirement Plan Processing Services

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Section I - Principal Life Insurance Company’s Retirement Plan Processing Services Management Assertion

We have prepared the accompanying description of Section III – Principal Life Insurance Company’s Retirement Plan Processing Services (the Description) for user entities (plan sponsors) of the services during some or all of the period from October 1, 2015 to September 30, 2016, and their independent auditors who have a sufficient understanding to consider the Description, along with other information, including information about controls implemented by the plan sponsors themselves, when assessing the risks of material misstatements of the plan sponsors’ financial statements. We confirm, to the best of our knowledge and belief, that:

a. the Description fairly presents the Retirement Plan Processing Services (services) made available to plan sponsors during the period from October 1, 2015 to September 30, 2016 for processing their transactions. Principal Life Insurance Company (Principal Life) uses the Kansas City Insurance Services Department of State Street Corporation (State Street – Kansas City) to provide services related to (1) the recording and monitoring of investment transaction activity, (2) the collection and recording of investment income and (3) the valuation of the investments underlying the majority of the pooled separate accounts covered in this examination. The Description includes only the controls and related control objectives of Principal Life and excludes the control objectives, and related controls of State Street – Kansas City. The criteria we used in making this assertion were that the Description:

(1) presents how the services made available to plan sponsors were designed and implemented to process relevant transactions, including:

- the types of services provided, including, the classes of transactions processed.
- the procedures, within both automated and manual systems, by which those services are provided, including by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports provided to plan sponsors.
- the related accounting records, supporting information, and specific accounts that are used to initiate, authorize, record, process, and report transactions; this includes the correction of incorrect information and how information is transferred to the reports provided to plan sponsors.
- how the services capture and address significant events and conditions, other than transactions.
• the process used to prepare reports or other information provided to plan sponsors.

• specified control objectives and controls designed to achieve those objectives.

• controls that, in designing the services, we contemplated would be implemented by plan sponsors in order to achieve the specified control objectives (Complementary User Entity Controls).

• other aspects of our control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls that are relevant to the services provided, including processing and reporting transactions of plan sponsors.

(2) does not omit or distort information relevant to the scope of the services, while acknowledging that the Description is prepared to meet the common needs of a broad range of plan sponsors and their independent auditors, and may not, therefore, include every aspect of the services that each individual plan sponsor and its independent auditor may consider important in the plan sponsor’s own particular environment.

b. the Description includes relevant details of changes to the services during the period from October 1, 2015 to September 30, 2016.

c. the controls related to the control objectives stated in the Description, created in conjunction with the complementary user entity controls and subservice organization’s controls referred to above if suitably designed and operating effectively, were suitably designed and operated effectively throughout the period October 1, 2015 to September 30, 2016 to achieve those control objectives. The criteria we used in making this assertion were that:

(1) the risks that threaten the achievement of the control objectives stated in the Description have been identified by management;

(2) the controls identified in the Description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the Description from being achieved; and

(3) the controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Principal Life Insurance Company
December 1, 2016
Section II - Independent Service Auditor’s Report

The Board of Directors
Principal Life Insurance Company

Scope

We have examined Principal Life Insurance Company’s (Principal Life) accompanying Section III – Principal Life Insurance Company’s Retirement Plan Processing Services (Description) for processing plan sponsors’ transactions throughout the period October 1, 2015 to September 30, 2016 and the suitability of the design and operating effectiveness of controls described therein to achieve the related control objectives stated in the Description. The Description indicates that certain control objectives specified in the Description can be achieved only if complementary user entity controls contemplated in the design of Principal Life’s controls are suitably designed and operating effectively, along with related controls at the service organization. We have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Principal Life uses the Kansas City Insurance Services Department of State Street Corporation (State Street – Kansas City) to provide services related to (1) the recording and monitoring of investment transaction activity, (2) the collection and recording of investment income and (3) the valuation of the investments underlying the majority of the pooled separate accounts covered in this examination. The Description includes only the controls and related control objectives of Principal Life and excludes the control objectives, and related controls of State Street – Kansas City. Our examination did not extend to controls of State Street – Kansas City.

The information in the accompanying Section V – Other Information provided by Principal Life is presented by management of Principal Life to provide additional information and is not part of Principal Life’s Description. Such information has not been subjected to the procedures applied in our examination and, accordingly we express no opinion on it.

Principal Life’s responsibilities

Principal Life has provided the accompanying assertion titled, Principal Life Insurance Company’s Retirement Plan Processing Services Management Assertion (Assertion) about the fairness of the presentation of the Description and suitability of the design and operating effectiveness of the controls described therein to achieve the related control objectives stated in the Description. Principal Life is responsible for preparing the Description and Assertion, including the completeness, accuracy, and method of presentation of the Description and Assertion, providing the services covered by the Description, specifying the control objectives and stating them in the Description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the Assertion, and designing, implementing, and documenting controls to achieve the related control objectives stated in the Description.
Service auditor’s responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the Description and on the suitability of the design and operating effectiveness of the controls described therein to achieve the related control objectives stated in the Description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the Description is fairly presented and the controls described therein are suitably designed and operating effectively to achieve the related control objectives stated in the Description throughout the period October 1, 2015 to September 30, 2016.

An examination of a description of a service organization’s system and the suitability of the design and operating effectiveness of the service organization’s controls described therein to achieve the related control objectives stated in the Description involves performing procedures to obtain evidence about the fairness of the presentation of the Description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives. Our procedures included assessing the risks that the Description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives were achieved. An examination engagement of this type also includes evaluating the overall presentation of the Description, the suitability of the control objectives, and the suitability of the criteria specified by the service organization and described in the Assertion. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent limitations

The Description is prepared to meet the common needs of a broad range of plan sponsors and their independent auditors and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the Description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in Principal Life’s Assertion:

a. the Description fairly presents the Retirement Plan Processing Services that were designed and implemented throughout the period October 1, 2015 to September 30, 2016.

b. the controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 1, 2015 to September 30,
2016 and if plan sponsors applied the complementary user entity controls contemplated in the
design of Principal Life’s controls and the subservice organization applied the controls
contemplated in the design of Principal Life’s controls throughout the period October 1,

c. the controls tested, which together with the complementary user entity controls and
subservice organization’s controls referred to in the scope paragraph of this report if
operating effectively, were those necessary to provide reasonable assurance that the control
objectives stated in the Description were achieved, operated effectively throughout the
period October 1, 2015 to September 30, 2016.

Description of tests of controls

The specific controls tested and the nature, timing, and results of those tests are listed in the
accompanying Section IV – Description of Control Objectives, Controls, Tests and Results of
Testing (Description of Tests and Results).

Restricted use

This report, including the description of tests of controls and results thereof in the Description of
Tests and Results, is intended solely for the information and use of Principal Life, plan sponsors
of Principal Life’s Retirement Plan Processing Services during some or all of the period from
October 1, 2015 to September 30, 2016, and the independent auditors of such plan sponsors, who
have a sufficient understanding to consider it, along with other information including information
about controls implemented by plan sponsors themselves, when assessing the risks of material
misstatements of plan sponsors’ financial statements. This report is not intended to be and should
not be used by anyone other than these specified parties.

Ernst & Young LLP

December 1, 2016
Des Moines, Iowa
Section III – Principal Life Insurance Company’s Retirement Plan Processing Services

Overview of Operations

Overview of the Organization: Principal Life Insurance Company (Principal Life) is a stock life insurance company and a member of the Principal Financial Group® (Principal® or Company). Principal is a global asset management leader in offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through its diverse family of financial services companies.

As of September 30, 2016, Principal has $595.8 billion in assets under management. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG.

Principal Life is the largest member company of Principal. Principal Life is incorporated under Iowa law with its headquarters and registered office in Des Moines, Iowa, United States.

Principal Life entered the employee benefit field in the 1940s to complement its insurance operations and has since expanded to provide a full range of employee benefit services to its plan sponsors, including:

- Retirement Solutions: pension and profit-sharing plans – including §401(k) plans, §403(b) plans, employee stock ownership plans, defined benefit pension plans and nonqualified executive benefit plans.
- Group Insurance Solutions: life, disability, dental, vision, voluntary insurance products and related administrative services.
- Business Owner and Key Employee Solutions: business exit planning, estate planning, retirement income, business protection, income protection, and survivor income.

Principal Global Investors, LLC (PGI) is a diversified global asset management organization and a member company of Principal. PGI manages assets primarily for retirement plans and other institutional clients and is the valuation agent for a small portion of the Principal Core Plus Bond Separate Account (see Proprietary Asset Management section).

Principal Real Estate Investors, LLC is a leading real estate investment management firm and is a wholly owned subsidiary of PGI. Principal Real Estate Investors is the valuation agent for Principal U.S. Property Separate Account (see Proprietary Asset Management section).

Principal Securities, Inc. (PSI) (formerly known as Princor Financial Services Corporation) is a broker dealer and registered investment advisor that manages product offerings ranging from mutual funds to managed/advisory accounts. Trades for mutual funds and common collective investment trusts offered as investment options to Principal Life’s retirement plan sponsors are made through PSI.
Delaware Charter Guarantee and Trust Company (conducting business under the trade name of Principal Trust Companysm) is a member company of Principal. Principal Trust Company (Principal Trust) provides directed trust and custodial services to certain retirement benefit plans and also sponsors some collective investment trusts available to plan sponsors.

Principal Life performs, or performed during the period, the following reporting and processing services on behalf of Principal Trust pursuant to an Agency Agreement, Services Agreement and an Operations Agreement:

- Processing participant and plan sponsor contributions, loan payments and investment changes.
- Processing mutual fund and collective investment trust trades through the broker/dealer or directly via the National Securities Clearing Corporation (NSCC).
- Processing open market trading of employer securities through Bankers Trust Company, Des Moines (Bankers Trust) as directed by the participant or plan sponsor.
- Processing daily instructions for purchases and redemptions of units of the Principal Trust collective investment trusts.
- Recordkeeping daily unit value for the Principal Trust collective investment trusts.
- Setting up and reconciling participant/plan-level accounts with an outside clearing firm for use under the Principal Self-Directed Brokerage Account.
- Processing loan payments for leveraged Employee Stock Ownership Plans (ESOPs).
- Processing benefit and expense payments.
- Preparing and issuing Form 1099-R and 1042.
- Processing tax withholding and payments to taxing authorities.
- Providing all services necessary for Principal Trust to act as the Qualified Termination Administrator for abandoned plans.
- Providing Privacy Notice, as required.

The retirement benefit plans for which Principal Trust serves as directed trustee or custodian are subject to the controls and processes of Principal Life for the services performed.

Retirement and Income Solutions (RIS) is a major business segment of Principal Life that provides long term savings, investing and retirement income solutions for growing U.S. businesses and individuals. The Retirement Plan Processing Services provided by Retirement and Income Solutions – Full Service Accumulation (RIS-FSA) covers both defined benefit (DB) and defined contribution (DC) plans, including Employee Stock Ownership Plans with a §401(k) (KSOPs) and Employee Stock Ownership Plans for companies that have privately-held or publicly-traded stock.
(ESOPs). Services provided depend on the type of plan, contract, and selections by the plan sponsor, and may include:

- Actuarial Services
- Administrative Assistance
- Automatic Voice Response System
- Compliance Testing
- Consulting Services
- Distribution Services
- Electronic Information Reporting
- Employee Communications
- Enrollment Services
- Flexible Plan Reporting
- Government Reporting
- Internet Access to Plan & Participant Data
- Investment Services
- Participant Services
- Plan Design Assistance
- Plan Sponsor Newsletter
- Recordkeeping Services
- Retirement Planning Software

Depending on the type of retirement plan selected, plan sponsors may choose from a wide range of investment options. Principal Life offers a vast array of proprietary and non-proprietary investment options to plan sponsors.
Overview of Internal Control

A company’s internal control is a process - effected by an entity’s board of directors, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives related to the: (1) reliability of internal and external financial and non-financial reporting, (2) effectiveness and efficiency of the entity’s operations, and (3) adherence to laws and regulations to which the entity is subject. The following is a description of the five components of internal control as defined in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 for which Principal is utilizing.

Control Environment

The control environment is the set of standards, processes, and structures that provides the basis for carrying out internal control across the organization. It is the foundation for all other components of internal control, providing discipline and structure. The control environment of Principal originates with and is the responsibility of the Board of Directors, the Chief Executive Officer and senior management who establish the tone at the top regarding the importance of internal control including expected standards of conduct. Management of Principal recognizes its responsibility for directing and controlling operations and for establishing, communicating and monitoring control policies and procedures. Importance is placed on maintaining sound internal control and the integrity and ethical values of all personnel. The resulting control environment has a pervasive impact on the overall system of internal control.

Integrity and Ethical Values: The Principal Financial Group Global Code of Business Conduct and Ethics (the Code) serves as the foundation for ethical behavior across the organization, and provides a uniform set of principles for how Board members and employees are accountable for adhering to the Code, conducting business and performing their duties. The Code has been approved by senior management and the Nominating and Governance Committee of the Board of Directors of Principal Financial Group, Inc. Every Director and employee (which includes officers) of Principal is accountable for adhering to the Code and is expected to use the principles of the Code as a guide for making business decisions in their daily activities. The Code is also publicly available on www.principal.com. On an annual basis, all employees certify that they have read the Code and agree to act in accordance with the principles of integrity as outlined in it.

The Code addresses all requirements of a Code of Ethics under the rules of the New York Stock Exchange and the requirements of Section 406 of the Sarbanes-Oxley Act of 2002. Principal has a robust compliance function with designated Compliance Directors in its various business areas, affiliated companies, and operating areas who have responsibility to support and promote the Code and provide more specific guidance regarding how it impacts activities in their areas. Directors and employees are expected to promptly report suspected violations of the Code or laws. Multiple options are provided for reporting concerns including an ethics hotline, which is operated by a third party service provider and is available 24 hours a day, seven days a week. All reported issues are appropriately investigated and reported in accordance with Company policy and legal/regulatory reporting requirements. Dashboard information and summaries of applicable
whistleblower/investigation activities are reported to the Audit Committee of the Board of Directors.

**Board of Directors, Governance and Oversight:** The Board of Directors is comprised of current and retired business executives who meet at least on a quarterly basis to discuss pertinent matters and to review financial information. The Board is comprised of 11 members, 10 of which are independent Directors. The Board reviews the independence of its members at least annually and at any other time that circumstances require a review. The Audit Committee of the Board is made up entirely of independent Directors. The Audit Committee, which also meets on a quarterly basis at a minimum, is appointed by the Board to monitor: (1) the integrity of the financial reporting processes and systems of internal accounting and financial controls, (2) compliance with legal and regulatory requirements, (3) the qualifications and independence of the primary independent auditor, and (4) the performance of the internal and primary independent auditors. A free and open channel of communication exists between the Audit Committee, independent and internal auditors, management and the Board of Directors.

**Organizational Structures, Authorities and Responsibilities:** Principal has approximately 140 direct and indirect subsidiaries. Each subsidiary has its own governance structure with its own organizational documents, board of directors, officers and resolutions of the board that authorize corporate action, establish a core set of controls and delegate authority to act on behalf of the entity. The Chief Executive Officer (or President) and General Counsel of Principal approve assignments to subsidiary boards and counsel members of management serving on subsidiary boards on the responsibilities of their role. A core set of basic control resolutions are established at the entity-level by the Corporate Secretary Team and promulgated for adoption by each domestic subsidiary. The Corporate Secretary Team, a member of which is named as the Corporate Secretary or Assistant Corporate Secretary of a majority of the entities, provides oversight and direction of these entities on each element of the governance structure listed above and monitors their compliance.

Organization structure and product distribution for Principal is aligned into the following major operating segments; each led by a Division President, who has management responsibility for the profit/loss of his or her segment:

- Principal International
- Principal Global Investors
- Retirement and Income Solutions, and
- U.S. Insurance Solutions.

Each of the senior executives of Principal Life has extensive background and experience in the financial services industry and the responsibilities of their respective positions. Within each segment, management is required to develop detailed budgets for use in setting goals and monitoring performance.

**Commitment to Competence:** Human Resource services, policies, and processes of Principal Life are designed to: (1) identify, hire, and retain a competent workforce, (2) provide employees
and leaders with training and development, (3) assist leaders in evaluating the performance of employees to verify their ability to perform job assignments, (4) identify opportunities for growth, performance improvement or formal disciplinary action, (5) guide leaders to effectively compensate and reward employee performance, and (6) be compliant with internal policies and regulatory requirements. Human Resources utilizes standard processes for hiring, training, motivating, evaluating, promoting, compensating, transferring, and terminating personnel that are applicable to all functional areas of the organization.

Human Resources has standard recruitment and selection procedures in place. Background checks are completed on candidates and offers are made contingent on a satisfactory background check. Additional checks or tests are performed depending on the nature of the job and any applicable regulations. Human Resources facilitates new employee orientation for new employees. From there each business area determines training and orientation needs and the forum for training new employees. A variety of tools and development programs for employees and leaders are available through a central Learning Management System and Human Resources digital site content designed to promote and address development throughout an employee’s career.

A competency model is leveraged to outline performance and behavior expectations for each job which is used not only for the performance review, but as a tool throughout the year for ongoing performance and development conversations. Leaders are encouraged to have ongoing and frequent performance and development related coaching discussions with employees, obtain performance feedback no less than annually, as well as obtain self-reviews from employees to assist in delivering effective formal annual employee performance evaluations.

Principal uses a centralized compensation administration system to enable leaders to manage annual compensation changes. Human Resources staff consults on and assists with annual base and incentive compensation decisions by business area to influence employee differentiation. The philosophy includes a focus on pay for performance, competitive pay, and incenting appropriate behaviors. Those performing at the highest levels and contributing the most to Company success receive greater financial reward.

**Management’s Control Consciousness and Accountability:** As discussed earlier, Principal has developed a Global Code of Business Conduct and Ethics that provides a uniform set of principles for how to conduct business and to perform their duties. In addition, Principal has a centralized “hub” (Policy Central) for corporate-wide policies and standards. The policies are broad statements of management’s principle or intent which provide direction on various topics. The standards are work rules which specify courses of action or responses to various situations, often to support compliance with Company policies.

Corporate Financial Standards have been established to outline minimum expectations for financial processes and controls and encourages business areas to further define specific standards, processes, and controls that are appropriate for their operations. Even though the business area standards must comply with the minimum corporate expectations, deviations may be allowed for substantiated business reasons if they are documented and approved. Each business area is responsible for ensuring that controls and standards are sufficiently implemented, properly documented, and maintained by their organization.
Principal also has a written Whistleblower Policy that establishes guidelines and procedures for handling reports of suspected unethical or fraudulent activity. Additionally, Principal has a long-standing policy against retaliation for reports of any type of suspected wrongdoing or unethical conduct when made in good faith. As mentioned earlier, the policy includes an ethics hotline that is staffed by a third-party 24 hours a day, seven days a week. Reporting suspected unethical and fraudulent activity electronically is also an option by completing a form available on the internal and external web sites. In addition, Principal maintains fidelity bond coverage for all employees.

**Risk Assessment**

An entity’s risk assessment process involves a dynamic and iterative process for identifying, analyzing, and managing of risks to the achievement of its objectives, including assessing risks relevant to the preparation of its financial statements and to plan sponsors. Principal recognizes that risk management is a critical component of its operations that helps to ensure corporate assets are properly managed and plan sponsors are properly served.

**Risk Identification and Assessment:** Management at Principal have incorporated risk management throughout its processes at both the corporate and business area levels. The risk management organization at Principal Life is decentralized, but integrated across the entity. Business areas, including revenue producing business units (BUs) and non-revenue producing, service center business units that provide functional support to multiple BUs are accountable for their own risk management, which includes identifying risks, then developing strategies for monitoring and managing the risks within their operations and detailed processes. The Chief Risk Officer, working in coordination with Internal Audit and Risk Consulting, the corporate financial staff and other areas, provides oversight, including monitoring, measuring, aggregating and reporting the risk information developed in the business areas. Various executive-level “risk committees” are involved in discussions relating to risk and the Board of Directors is made aware of key risks and decisions impacting those risks.

**Consideration of Fraud:** As mentioned above, Principal has various initiatives in place to detect, investigate, and prevent fraud. Principal is dedicated to educating employees and producers about fraud awareness efforts. In its view, education is the best way to detect and prevent fraudulent activity. Education and prevention efforts throughout Principal are on-going and management strives to use innovative ways to address the issues and combat fraud. Principal considers the potential for fraud and the effectiveness of controls when assessing risks to the achievement of objectives, including providing reliable retirement plan services to plan sponsors.

Fraud Risk Assessments (FRAs) are periodically conducted across the organization to identify fraud scenarios across all BUs in which theft or loss could occur and to determine if existing control procedures adequately mitigate the risk to an acceptable level. Various fraud scenarios are discussed, risk rated, and prioritized based on exposure. Existing controls are identified and analyzed with an emphasis on higher-risk fraud scenarios to determine whether further consideration or action is needed. A high level memorandum is prepared for area leaders outlining findings of each FRA and related action plans. The FRA exercise enhances collaboration across BUs (since similar risks apply across BUs) and increases awareness of general fraud risks and the importance of reviewing those risks on a proactive basis.
**Internal and External Change Management:** Principal Life has a variety of formal and informal processes to anticipate, identify and assess the effect of changes that occur both externally and internally that have the potential to impact internal controls. Responsibilities have been established across the organization to track and evaluate changes to the regulatory, economic, and industry environments in which Principal Life operates. Changes to business strategies, processes, technologies, and personnel are closely monitored to understand any impacts on internal controls and assess the response needed to ensure such controls remain effective and efficient. Various reporting mechanisms have been established to communicate these changes in advance of the effective date in order to anticipate and plan for such changes.

**Retirement Plan Processing:** Principal Life identifies and evaluates operational risks that could affect the ability to provide reliable retirement plan services to plan sponsors. Relevant risks are evaluated and monitored in daily operations, risk assessment reports, risk committees, Internal Audit and Risk Consulting internal audits and service auditor feedback. For each risk identified, management is responsible for implementing appropriate measures to monitor and manage the risk. If needed, additional action is taken to improve the effective management of the risk.

**Control Activities**

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity’s objectives. Control activities, whether preventive or detective, automated or manual, have various objectives and are applied at various organizational and functional levels.

As discussed earlier, Principal has a centralized “hub” (Policy Central) for corporate-wide policies and standards. Included in the standards are various Corporate Financial Standards that have been established to identify minimum expectations regarding financial processes and controls for business areas and consolidated subsidiaries while allowing them the flexibility to further define such processes and controls appropriate for their operations.

In addition, the Standards of Internal Controls provide that all areas of Principal maintain certain internal control policies and procedures to help ensure transactions are properly authorized and accounted for in an accurate and timely manner. They also require that assets are properly safeguarded, adequate segregation of duties and control responsibilities are established and maintained in all functional areas of Principal, and each area has effective ongoing monitoring procedures that ensure transactions, processes and activities are functioning effectively. Specific control activities are provided in the Control Environment, Retirement Plan Processing Services, and Information Technology Controls portions of Section III, as well as listed in Section IV – Description of Control Objectives, Controls, Tests and Results of Testing.

**Information and Communication**

Information and communication processes support the identification, capture, and exchange of relevant information from both internal and external sources in a form and timeframe that enable people to carry out their responsibilities. Principal Life has established corporate standards to address information requirements, including identifying data attributes, information repositories,
and retention. Principal Life’s information systems consist of procedures, whether automated or manual, to initiate, authorize, record, process, and report transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equities. A high-level description of the information system is provided below in *Description of Processing Environment*.

Communication is the continual, iterative process of obtaining, sharing, and providing necessary information both internally and externally as appropriate. It includes ensuring individual roles and responsibilities and related information pertaining to internal controls are clearly understood. Communication systems exist from the entity-level to the department-level. Multiple communication paths exist to help ensure that processes function as designed and issues are identified and resolved in a timely manner. Internal and external reporting and control processes consistently follow a structured schedule to provide for sufficient communication of relevant information and necessary analysis time. The schedules are established in order to meet external deadlines. A description of certain entity-level communication systems was provided above under *Control Environment*.

**Monitoring Activities**

Monitoring is a critical aspect of internal control in evaluating whether processes and controls at different levels of the entity are operating as intended and whether they are modified as appropriate for changes in conditions. As the first line of defense, staff is responsible for the ongoing operation of effective controls and management personnel are responsible for monitoring the quality of internal control performance as a routine part of their activities. In addition, various second line functions (e.g., compliance, risk management) provide on-going monitoring of Retirement Plan risks and controls on a regular basis, working closely with line management. Evaluations are also periodically performed by Principal Life’s internal audit function and others to help ensure controls continue to operate effectively.

**Internal Audit Function:** The Internal Audit and Risk Consulting (IARC) department provides internal audit services for Principal. IARC is responsible for providing the Audit Committee and management with assurance regarding the effectiveness of risk management activities within the organization. The scope of work includes all operational, financial, systems and compliance activities of Principal. IARC evaluates the adequacy of design of controls to mitigate risks, and tests controls for effectiveness.

IARC staff is comprised of individuals with a broad set of professional experience and Company exposure. The department includes staff experienced within various disciplines including industry, finance, accounting, audit, and systems. To help ensure adherence with the Institute of Internal Auditors’ professional standards related to objectivity and its code of ethics, each IARC employee is required to sign a conflict of interest form annually. IARC has a direct reporting relationship to the Audit Committee on substantive matters regarding audit issues. There is unrestricted access to, and regular communications with the Audit Committee Chair and the Chief Executive Officer, including an executive session at each quarterly Audit Committee meeting. IARC has an on-going quality assurance review process and complies with the Institute of Internal Auditors standard that requires an outside quality assurance review every five years.
IARC relies on a process-based risk assessment to help determine the areas of focus for the annual audit plan. The audit universe is reviewed and updated at least annually, with evaluation occurring on key factors such as risk level, materiality and changes impacting the auditable topic. IARC consults with business area management to obtain input regarding issues and current or planned changes in operations as annual plans are being developed, and obtains formal approval of the annual plan and any plan modifications from the Audit Committee. The results of audit projects are communicated to the Chief Executive Officer, other members of senior and business area management, and the independent auditor. IARC provides the Audit Committee a quarterly report that includes a summary of completed audits and description of key findings, a progress update on resolution of the most important action items, and statistics regarding progress on completion of action plans.

**Regulatory Supervision:** Principal Life is required to develop and maintain formal policies and procedures by the Insurance Division of the Department of Commerce of the State of Iowa. The Insurance Division periodically reviews these policies and procedures, as well as the statutory financial statements of Principal Life, to determine their compliance with the Division’s rules and regulations. Principal Life is also required to have an annual audit performed by an independent certified public accountant.

Principal Life is licensed to write insurance in all 50 states, the District of Columbia, Puerto Rico and Canada and is, therefore, subject to periodic reviews by the various regulatory agencies. In addition, Principal and its affiliates currently have a presence in Australia, Brazil, Chile, China, Dubai, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Singapore, Thailand and United Kingdom.
Retirement Plan Processing Services

Section III – Description of Processing Environment describes the controls of Principal Life, RIS-FSA that are relevant to the information represented on the financial statements of our plan sponsors’ retirement benefit plans. The related transactions typically include cash, investments, contributions, distributions and income, and are summarized for the plan sponsor in various reports/statements.

The Complementary User Entity Controls listing found at the end of Section III – Description of Processing Environment is a summary of those controls RIS-FSA relies upon the plan sponsor to have in place to help ensure the controls described within this report work effectively.

The control objectives specified by RIS-FSA and the controls that achieve those control objectives and results of independent testing are listed in the accompanying Section IV – Description of Control Objectives, Controls, Tests and Results of Testing. Parenthetical references have been included in the following narrative as a cross reference to the applicable control procedures.

Report Scope

The scope of this examination is limited to RIS-FSA’s recordkeeping services to employer-sponsored retirement plans containing 100 or more lives and subject to the Employee Retirement Income Security Act of 1974 (ERISA) independent audit requirement.

Plan Types

Controls cover all plan types unless specifically noted otherwise. The following references have been used throughout the report (unless specified otherwise):

- Defined Contribution (DC) plans include:
  - Money Purchase
  - Profit Sharing
  - Internal Revenue Code (IRC) §401(k) and 403(b)
  - Daily valued, publicly traded ESOP and KSOPs

- Defined Benefit (DB) plans include all plan types offered by Principal Life. References may be specified at the product level if necessary. These include Flexible Pension Investment (FPI), Immediate Participation Guarantee (IPG), and Deposit Administration (DA). FPI references typically include all FPI, FPI-87 and FPI-99 products unless specified otherwise.

- Other ESOP/KSOPs
  - Privately traded ESOP and KSOPs
  - Non-Daily valued, publicly traded ESOP and KSOPs
Investments

Principal Life offers investment options to plan sponsors via both Proprietary Investments, which Principal Life owns (e.g., investment contracts and pooled separate accounts), and Non-Proprietary Investments which are owned by entities outside of Principal Life (e.g., collective investment trusts, stable value funds, and mutual funds, including mutual funds held as the single underlying investment in Principal Life’s wrapped separate accounts).

All Principal Life proprietary investments are included within the scope of this examination.

The majority of non-proprietary investments are electronically traded via the NSCC and monitored by the RIS-Finance area. These are referred to as electronically linked funds, which are included within the scope of the examination. A limited number of non-proprietary investments cannot be electronically traded via the NSCC and must be manually traded and monitored within the Administration area. These non-electronically linked funds are not included within the scope of this examination. Plan sponsors are notified of those investments that are non-linked during the investment set-up.

Investment options that Principal Life custom-designed for individual plan sponsors are not included in the scope of this report. The rest of the controls would apply.

Description of Processing Environment

The following is a description of the prevalent systems involved in the submission and processing of the retirement plan data. These applications are used in almost every significant process and the controls surrounding those applications apply to all of those processes.

Recordkeeping and Accounting Platform

System: Substantially all retirement plan processing is performed on the Recordkeeping and Accounting application systems hosted on Principal Life’s mainframe computer environment. While in reality these are two independent applications that work together and are balanced to one another, the overall mainframe system will herein be referred to as the Recordkeeping and Accounting system throughout the report for simplicity purposes.

This environment, which includes multiple IBM zSeries mainframe servers, disk drives, virtual tape drives, communications controller subsystems, and printer subsystems, is located at two geographically distant data centers interconnected with owned high-speed optic fiber. The production data center located in Johnston, Iowa, with the disaster recovery data center located out of state. Each server is supported by IBM’s z/OS operating system. Mainframe security access control is provided by CA, Inc.’s eTrust CA-Top Secret Security (CA-Top Secret), while transaction processing is provided through IBM’s Customer Information Control System (CICS). Physical access to the data centers is controlled by electromechanical locks.

Refer to Information Technology Controls for additional information.
Processing: When data entry is completed in systems, a transaction is built into Business Process Manager (BPM). A transaction designed to process immediately is dispatched as soon as it passes the defined business rules. Transactions still in BPM at the end of the day are sent to a nightly process (referred to as cycle) for processing. After cycle, the resulting plan, participant and accounting record changes are automatically posted to the Recordkeeping and Accounting system, if applicable (2.7, 6.9, 7.11).

If an issue is encountered in processing a transaction in cycle, an exception is produced in an exception database that Workers monitor. If an exception is identified, the Worker resolves the exception and reprocesses the work.

Workflow Processing Systems

Systems: To help support the unique workflow requirements of retirement plan processing and promote global processing, Principal Life utilizes Express Processing (Express) and IBM Business Process Manager (IBPM). Express and IBPM are workflow processing systems that incorporate both imaging and workflow technologies into the Retirement Plan Processing services. Express and IBPM process primarily in a client/server environment that includes multiple local area networks running Microsoft Windows and Unix servers; certain Express system components also reside in the mainframe computer environment. All Express and IBPM servers are physically located in the production data center with recovery capacity provided in the disaster recovery data center. Workstations are located in Des Moines, Mason City, and Cedar Falls, Iowa; Spokane, Washington; Wilmington, Delaware; Grand Island, Nebraska; Appleton, Wisconsin, and Pune, India. Locations outside Des Moines are connected to the mainframe and central campus network using high-speed, secure connections. Access to the programs operating Express and IBPM and databases storing information needed in processing as well as authorization to process plan sponsor and participant requests in the workflow processing systems is controlled by Active Directory and CA-Top Secret. See Information Technology Controls for additional information.

Express Processing: For most business processing areas, as documents are received by Principal Life, they are scanned into Express, which creates an electronic image identified to the appropriate plan sponsor record and is sent to an electronic queue. Request Examiners are responsible for retrieving items from this electronic queue to build an Express request. The Request Examiners determine the type of change being requested and build the appropriate type of request within Express, carrying with it all the associated images and data entry screens needed for processing that type of request. Once built, the request is placed in a second electronic queue, which holds requests to be worked. Based on skill levels identified in each Worker’s Express record, the Workers access requests from this queue and process the requested activity by viewing the images and, in most instances, inputting the activity through the data entry screens.

Express has checking percentages assigned to every type of request that is processed by a Worker. When processing a request, Express randomly selects which requests to submit for checking based on the checking percentage identified for that type of request. If Express identifies a request as one that requires checking, the request is routed from the Worker who performed the data entry to a checking queue for authorized Workers who check the work performed by the previous Worker (2.6, 6.7, 7.9). If any errors or discrepancies are noted during the process, the request is returned
to the Worker who worked the request to make the corrections. Once the corrections are made, the request is returned to the Checker, verified for accuracy and the request is completed.

**IBPM Processing:** Beginning in 2016, certain processing areas (e.g., disbursements) began moving from Express processing to IBPM, which has similar controls and functionality. Work identifiers are responsible for determining the type of document that was scanned and notifying IBPM of the new document being received or starts a new IBPM process. Once built, the process instance is completed through system activities and completed by appropriate staff as directed by the Work Management System. IBPM checking is assigned to each data entry user. Checking is either completed for 100% of all work completed or after the fact checking (Quality Assurance) is completed the following day. If IBPM identifies work as one that requires checking, the task is created and assigned to authorized users who check the work performed by the previous user (2.6, 6.7, 7.9). If any errors or discrepancies are noted during the process, the work is corrected by the checker.

After the Express request or IBPM workflow is completed, the transactions generated are submitted to the Recordkeeping and Accounting system for processing.

Activity submitted via other input channels (e.g., Secure Plan Sponsor Website, the Secure Participant Website, and PERIS; see further discussion below) also generate Express requests or IBPM workflows. Many times those Express requests or IBPM workflows automatically process and complete.

See *Client Recordkeeping* for additional processing and controls.

Express and IBPM capture metrics about the efficiency and quality of each user’s work. These metrics are monitored by management and action is taken if an employee’s efficiency and quality goals are not being met on a consistent basis (2.8, 6.8, 7.10).

**Secure Plan Sponsor Website**

**System:** Principal Life offers plan sponsors access to information and functionality via a secured environment at www.principal.com. The Internet-based functionality is provided via a secure internet connection established between the plan sponsor and Principal Life. In this environment, front-end processing occurs in a client/server environment that feeds into system components residing on the mainframe. See *Internet Based Systems* under *Information Technology Controls (Logic Access Controls)* for additional information.

**Processing:** The Secure Plan Sponsor Website allows plan sponsors to submit plan and participant information electronically via the internet.

To first establish the plan sponsor and plan within the Secure Plan Sponsor Website, a Security Administration Set-Up Form is completed by plan sponsors during the New Client Installation process. This form identifies the Primary Security Administrator (PSA) and other necessary information. At their option, the plan sponsor may elect to grant limited access to plan information through the Secure Plan Sponsor Website to users other than the PSA (e.g., their external plan auditor), who are referred to as Secondary Security Administrators (SSA). If so elected, the plan...
The plan sponsor is responsible for establishing appropriate security profiles to limit the type of transactions that can be processed and the specific plan level and plan participant data that can be accessed, as well as establishing appropriate password administration standards.

When entering the Secure Plan Sponsor Website, a plan-level user is required to enter a unique username, Employer Access Code and password. In addition, a login image, phrase, and challenge question are established on the first login to the website. This image displays each subsequent time the PSA enters the Secure Plan Sponsor Website to help ensure the correct site is accessed (2.1, 6.1, 7.1).

Upon authentication, the authorized plan-level users can access the secure website in order to perform a variety of tasks. This includes the ability to:

- View and sign the plan and contract documents.
- Add and remove participants.
- View and update participant information such as participant address, date of birth, date of employment, investment directions and deferral percentages.
- Submit participant benefit event notifications.
- Submit contributions and loan payments.
- View or change banking information used to process Electronic Funds Transfers (EFTs).
- View investment option information and request transfers between investments on forfeiture accounts.
- View plan and participant statements.
- View the trust statement provided by Principal Trust, if applicable.
- Submit information used to process compliance services.
- View the Form 5500, Audit Information, and compliance tests.
- Approve the Form 5500 electronically. Once approved, the Form 5500 is submitted electronically to the Department of Labor.

The Secure Plan Sponsor Website has edits that help ensure data is entered and formatted correctly, and in certain situations confirms the request is according to plan provisions and/or meets government requirements (2.3, 6.3, 7.4). As transactions and record changes are submitted, it is confirmed by the requestor as being appropriate by checking a box (2.2, 6.2, 7.2).

**Edit Checks:** All modifications manually entered or imported through the Secure Plan Sponsor Website are subject to numerous automated edit checks to help ensure information is correctly entered by the plan sponsor, including:
• Account balance limit checks and mathematical summation checks (including those applicable to investment transfers, investment option allocation changes and deferral percentage changes).

• Edits that disallow changes not allowed by the provisions of the contract or plan document, as applicable.

• Edits that prevent contributions from being submitted from ineligible participants, including those with hardship withdrawals within the last six or twelve months, if applicable.

• Other clerical and logic checks, including, but not limited to, investment direction percentage changes, employee data changes (e.g., gender, marital status, language, and date of birth), employment data changes (e.g., highly compensated status and active participation status), and EFT bank account changes.

The Secure Plan Sponsor Website is designed to accurately capture plan sponsor data and either immediately post the information to the Recordkeeping and Accounting system or automatically generate the appropriate Express Request (See Express Processing System). A verification is performed each day to verify all data entered on the website the previous day was captured in Express (2.4, 6.5, 7.5).

Secure Participant Website

System: Principal Life offers plan participants access to information and functionality via a secured environment at www.principal.com. The Internet-based functionality is provided via a secure internet connection established between the plan participant and Principal Life. In this environment, front-end processing occurs in a client/server environment that feeds into system components residing on the mainframe. See Internet Based Systems under Information Technology Controls (Logic Access Controls) for additional information.

Processing: The Secure Participant Website allows plan participants to access their retirement plan data electronically via the Internet.

Plan participants receive information explaining how to access the Secure Participant Website and establish a unique username, password and login image and phrase once they have been built within the Recordkeeping and Accounting system. Challenge questions and answers are recorded to be used in the event the participant is unable to remember their sign on information.

To use the Secure Participant Website, the participant is required to enter their unique username and password. The image and phrase display when the participant enters the website to help ensure the correct site is accessed (2.1, 6.1, 7.1).

Upon authentication, the participant can access their secure website in order to perform a variety of tasks. Depending on plan and contract provisions, plan participants may:

• Submit initial investment direction and salary deferral percentage.

• Transfer existing account balances between investment options.
- Change future investment direction and salary deferral percentage.
- Rebalance their account among selected investment options.
- Select the diversification of investments of an ESOP or KSOP.
- Request a plan loan quote, a loan payout, and payoff a loan.
- Electronically sign a participant loan note, if allowed by the plan.
- Request a disbursement from their account, if allowed by the plan.
- Submit or change beneficiary information.

The Secure Participant Website has edits that help ensure data is entered and formatted correctly and in certain situations confirms the request is according to plan provisions and/or meets government requirements (2.3, 6.3, 7.4). As transactions and record changes are submitted, it is confirmed by the requestor as being appropriate by either re-entering their password or checking a box (2.2, 6.2, 7.2).

**Edit Checks:** All modifications manually entered through the Secure Participant Website are subject to numerous automated edit checks to help ensure information is correctly entered by the plan participant, including:

- Account balance limit checks and mathematical summation checks (including those applicable to investment transfers, investment option allocation changes and deferral percentage changes).
- Edits that disallow changes not allowed by the provisions of the contract or plan document, as applicable.
- Other clerical and logic checks, including, but not limited to, investment direction percentage changes and employee data changes (e.g., gender, marital status, language, and date of birth).

The PSA (and SSA’s if access is granted) also has access to make changes on behalf of participants. These individuals enter the Secure Participant Website through the Employee Info tab on the Secure Plan Sponsor Website. It is the Plan Administrator’s responsibility to monitor who has access to make changes on behalf of participants. Principal Life sends an annual reminder to the Plan Administrator to review PSA and SSA access. In addition, changes submitted through the Secure Participant Website generate a confirmation letter to the participant.

The Secure Participant Website is designed to accurately capture plan participant data and either immediately post the information to the Recordkeeping and Accounting system or automatically generate the appropriate Express Request (see *Express Processing System*). A verification is performed each day to verify all data entered on the website the previous day was captured in Express (2.4, 6.5, 7.5).
Pension Electronic Reporting Information System (PERIS®)

System: PERIS is one of Principal Life’s electronic reporting options. PERIS is used to upload information submitted on spreadsheets from plan sponsors directly into the Recordkeeping and Accounting system. Data submitted in the standard format is organized in a specific order to work with Principal Life’s systems.

Processing: Plan sponsors can provide the following information in an electronic file format:

- New participant data
- Changes to existing participant data
- Contributions and participant loan payments
- Participant compensation
- Participant benefit event information

Data is stored in an initial file that is pre-processed by the system. As electronic files are processed certain criteria must be met. If any errors are encountered, PERIS produces edit messages that are reported to the Client Service Associate (CSA) for investigation and resolution (2.3). Otherwise, the data is entered to the participant records. When processing contributions and participant loan payments, the system checks the plan records to see if the plan sponsor has authorized Principal Life to process an EFT. If the authorization is in place and the plan sponsor’s bank information is present, the system generates an EFT request to the bank.

Authentication for PERIS is controlled by CA-Top Secret. See additional validation in the Information Technology Controls (Logical Access Controls) section.

LVIndiv

System and Processing: The LVIndiv program, part of the LVAdmin third-party software package by LynchVal Systems Worldwide, Inc., is utilized to calculate participant benefits on DB plans. The technology for this distributed system is housed within the data centers. Security over the distributed system is provided by the native security features of the related operating system, coupled with application-level security.

Authentication for LVIndiv is controlled by CA-Top Secret. See additional validation in the Information Technology Controls (Logical Access Controls) section.
**PFGVal**

**System:** Maintaining the records of privately traded ESOPs and KSOPs and Non-Daily valued, publicly traded ESOPs and KSOPs, along with processing plan and participant data and various compliance tests for those plans, is performed in the Windows-based proprietary administration system referred to as PFGVal. Additionally, certain daily valued public ESOPs and KSOPs that require allocations based on compensation are performed in PFGVal.

The technology for this system is housed within various server rooms located within the data centers. Security over the distributed system is provided by the native security features of the related operating system, coupled with application-level security.

Authentication for PFGVal is controlled by CA-Top Secret. See additional validation in the *Information Technology Controls (Logical Access Controls)* section.

**Processing:** Many functions are performed using PFGVal including:

- Adding new participants and changing existing participant data.
- Preparing participant statements.
- Maintaining participant account balances.
- Calculating forfeitures, reallocating forfeitures and share repurchases.

As electronic files are processed, certain criteria must be met. If any errors are encountered, PFGVal produces edit messages that are reported to the CSA) for investigation and resolution. The CSA works with the plan sponsor on those with errors to obtain and correct all missing or invalid information and uploads the remaining data.

**Electronic Reporting System (ERS)**

**System:** The ERS tool is a way for Defined Benefit (DB) plan sponsors to report anniversary information for DB plans to Principal Life via Excel file or flat file.

Authentication for ERS is controlled by CA-Top Secret. See additional validation in the *Information Technology Controls (Logical Access Controls)* section.

**Processing:** Principal Life uses ERS to upload the plan and participant data into the Recordkeeping and Accounting system. Edits within ERS ensure data is entered correctly and all data submitted is entered into the records (2.3). Any issues identified create an exception message that a Recordkeeping Analyst reviews and resolves prior to re-uploading the data to the Recordkeeping and Accounting system. See *Description of Processing Environment (Recordkeeping and Accounting Platform)* section.
Client Recordkeeping

Client recordkeeping includes the initial entry of a client’s records into the Recordkeeping and Accounting system, subsequent modifications to the client record, the development and execution of the investment contract and any modifications to the contract.

New Client Installation

The Sales Representative, and Client Implementation Manager (Transition Manager) work together to collect initial plan sponsor and plan data. The gathered data is entered into the Client Implementation system.

A unique plan identification number is then assigned to the plan and an Express request is built. The Express request initiates an implementation data collection request and notifies the assigned Transition Manager of the newly assigned plan.

The Transition Manager sends the Security Administration Set-Up Form to the plan sponsor to obtain information regarding the PSA and other information necessary for establishing the Secure Plan Sponsor Website. Refer to the Description of Processing Environment for website security and sign-on information.

A variety of documents are prepared and sent to the plan sponsor for review, approval, and electronic signature.

New Contract Execution

Upon receipt of the implementation documents, which includes the contract application, RIS Consolidated Document Services or a Transition Manager reviews the application for completeness and verifies all of the necessary documentation is signed by the plan sponsor (or by the trustee if applicable) (1.1). If the documents are acceptable, the contract is then produced and delivered to the plan sponsor via the Secure Plan Sponsor Website.

For plan sponsors who do not wish to establish a group annuity contract with Principal Life, a signed service agreement serves as authorization by the plan sponsor or trustee to retain Principal Life for recordkeeping and/or investment services (1.1).

New Client Record Creation

DC Plans: Manual contract-level coding of the new plan sponsor record is performed within the Recordkeeping and Accounting system based upon the information collected and coding sheets completed by the Transition Manager. A quality assurance review of plan records is performed to verify that plan data was input correctly into the mainframe and the allocation of assets transferred from the prior investment carrier and entered to participant accounts was processed accurately (1.4).
**DB Plans**: The new plan sponsor’s records are created manually by the Transition Manager once an acceptable contract application or Advisory Service Agreement is received, as applicable. Another Manager reviews the investment option coding for accuracy prior to implementation (1.4).

A comparison is performed between benefits calculated by recordkeeping and the liabilities in the valuation provided by the prior actuary. Sample benefit calculations and a Calculation Policy are prepared and reviewed by the internal service team and are provided to the plan sponsor to verify Principal Life’s interpretation of the plan provisions for participant benefits is accurate (1.5). If the plan sponsor does not reply to the request for approval of the sample benefits and Calculation Policy, they are notified that the benefits will be calculated according to the plan provisions as shown in the sample benefits and policy.

**Other ESOP/KSOPs**: Plan provisions are initially entered into PFGVal by a Transition Manager. A plan summary report from PFGVal is generated and provided to the plan sponsor to assess if the plan provisions still meet their needs and Principal Life’s interpretation of the plan document is accurate. A quality assurance review of the plan summary report is performed to help ensure the plan provisions and transition information from the previous plan, if applicable; in PFGVal is accurate (1.4). Following the review, a Client Service Coordinator completes a coding spreadsheet which is forwarded to RIS Shared Services for uploading into the Recordkeeping and Accounting system.

**Transition of Participant Recordkeeping**

**DC Plans**: Client Transition Services and RIS-Finance have checks in place to not activate the investment options until all signed forms are received (1.1). Assets cannot be accepted until those investments are activated. If receipt of those forms goes beyond the initial agreed-upon contract effective date, the Transition Manager contacts the plan sponsor to discuss moving the contract effective date to a later date.

Assets are transferred to Principal Life as a lump-sum amount. The funds are then moved into a transfer account under the plan where they are invested in the plan’s default investment (as specified by the plan sponsor or signed service agreement) until Client Transition Services is provided with the participant-level allocation at which time the allocation to participant accounts and investments is performed. Typically, 403(b) plans rollover the assets to Principal Life one participant at a time rather than in one lump sum so the assets are entered directly to participant accounts.

**DB Plans**: At the transition of a DB plan, the Principal Life actuarial staff performs a comparison between benefits calculated by the Principal Life Recordkeeping and Accounting system and the liabilities in the valuation report provided by the prior actuary. All retiree benefit payments are also reconciled with the benefits paid by the prior paying agent before entry to the participant records.
Contract Amendments

Contract amendments may be generated by a request from the plan sponsor due to an event such as a plan or plan sponsor name change. In addition, changes in the separate account investment options allowed by the plan may require a contract amendment.

Once the amendment is drafted, it is signed by a Registrar and sent to the contract holder via the Secure Plan Sponsor Website for signature, if the plan sponsor is the contract holder.

Plan Sponsors or trustees are allowed to either wet or electronically sign their contract amendments. Upon receipt of a contract amendment, a Worker verifies the amendment was signed by an authorized representative of the plan sponsor (or trustee, if the contract is to be issued to the trustee) (1.2). If acceptable, the contract amendment is forwarded to a Registrar for signature if not already done. Once signed by both parties, RIS Consolidated Document Services executes the amendment and copies are delivered to the plan sponsor or trustee, as applicable (1.2).

Contract amendments may also be electronically approved through the Secure Plan Sponsor Website by an authorized representative of the plan sponsor or trustee after the representative re-enters his or her password as evidence of his or her electronic signature (1.3). If the trustee is Principal Trust, the contract amendment is electronically signed by a representative of the company and an executed copy of the contract amendment is placed on the Secure Plan Sponsor Website.

Plan sponsor record modifications generated from contract amendments are processed through Express and are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The Express request is Passed or Failed based upon the results of the review. If failed, the request is returned to the Worker for corrections (1.6). The Pass or Fail is reflected on the original Worker’s Efficiency and Accuracy Report, which is reviewed by Management regularly.

Client Record Modifications

Modifications to plan sponsor records that do not require a plan or contract amendment may be made at any time. These include items such as entering or updating EFT bank account information, updating the authorized signers for plan activity, and granting and removing security access to the Secure Plan Sponsor Website by the PSA (or SSA if access is granted). Some of these items are performed via the Secure Plan Sponsor Website directly, while others are accomplished by contacting the CSA for assistance.
Participant Recordkeeping and Reporting

For each plan participant under a DC or other ESOP/KSOP retirement plan, a record (i.e., an account) is maintained. The information maintained in the plan participant record includes enrollment data (e.g., plan participant’s name, employment date, and birth date), investment information, as applicable (e.g., investment directions, elective deferral percentages, and investment account balances) and other required data. A participant record is maintained in a DB plan if the plan sponsor requested recordkeeping services. For DB plan participants, the information maintained includes enrollment, benefit, and other required data.

Within each plan sponsor record, new plan participants may be built and modifications may be made to existing plan participant data based on authorized instructions from the plan sponsor and/or the plan participant.

New participants for DC plans can be added through (1) the Secure Plan Sponsor Website (2) electronic spreadsheets uploaded through PERIS, or (3) manually submitted paper enrollment forms. Modifications to the participant records can be made through the Secure Plan Sponsor and/or Secure Participant Website or through requests submitted manually. In addition to the above, new participants for Other ESOP/KSOPs can be added during the annual update process through the PFGVal application.

New participants for the DB plans can be added through: (1) the Secure Plan Sponsor Website, (2) annual paper data collection packets or (3) through electronic spreadsheets uploaded into the Recordkeeping and Accounting system through the Electronic Reporting System (ERS). Modifications to the participant records can be made through the Secure Plan Sponsor Website or through requests submitted manually.

Participant Additions and Modifications

Electronic Participant Additions/Modifications

Secure Plan Sponsor Website: Plan sponsors of DC and DB plans are able to add new participants, remove participants and modify existing participant data through the Secure Plan Sponsor Website. In addition, plan sponsors of DC plans are able to transfer the assets of plan-level forfeiture accounts to new investment options and modify investment directions and salary deferral percentages on behalf of participants. Upon authentication, the plan sponsor inputs the desired transaction using their personal computer or imports their data via a file. Refer to the Description of Processing Environment (Secure Plan Sponsor Website) for additional details (2.1, 2.2, 2.3).

Secure Participant Website: Participants of DC plans are able to perform the following functions on the Secure Participant Website:

- Modify participant data.
- Redirect future contributions to other investment options.
• Transfer existing retirement funds from one investment option to another.

• Change salary deferral percentage.

• Enter an election to receive a §404(k) dividend in cash.

• Record a diversification election.

Refer to the Description of Processing Environment (Secure Participant Website) for additional details (2.1, 2.2, 2.3).

Processing of Secure Plan Sponsor and/or Secure Participant Website modifications: Pre-processing edits are in place on the Secure Plan Sponsor and the Secure Participant Websites, which compare the data entered against certain plan provisions and perform various reasonableness checks when creating or modifying participant records (2.3). Record changes submitted through the secure websites must clear these edits or be fixed by the plan sponsor (2.3), and then either immediately post to the Recordkeeping and Accounting system or automatically generate an Express request (2.4). A Worker reviews and researches any Express requests which build, then processes the requests. The participant additions are then posted automatically to the Recordkeeping and Accounting system on the day of the activity (2.7). As all data entry relating to this information occurs outside of Principal Life, it is the responsibility of the plan sponsors to verify the validity of the plan participants they enroll and the accuracy of the information entered through this service.

PERIS: In some instances, participant additions are received by Principal Life from plan sponsors of DC and DB plans in the form of electronic spreadsheets that contain the participant information that needs to be added to the Recordkeeping and Accounting system. In such cases the data is uploaded to the Recordkeeping and Accounting system via PERIS and no manual data entry is needed. Once the file has been uploaded, PERIS performs edit checks to compare the data against permitted values. Any errors detected by this process are reported to the CSA for investigation and resolution (2.3). Refer to the Description of Processing Environment (PERIS) for additional details.

Electronic Reporting System: The ERS tool is a way for plan sponsors of DB plans to report anniversary information to the Principal Life via Excel file or Flat file. Principal Life then uses ERS to upload the plan and participant data into the Recordkeeping and Accounting system. Edits within ERS help ensure data is entered correctly and all data submitted is entered into the records (2.3). Refer to the Description of Processing Environment (Electronic Reporting System) for additional details.

Other ESOP/KSOP Submissions: Other ESOP/KSOPs submit their participant additions and modifications via an electronic file during the annual plan update process. After the file is received, the CSA formats and uploads the file into PFGVal. System edits within PFGVal perform various reasonableness checks on the imported data. Participant records with no errors are automatically added or updated in PFGVal (2.10). For the unprocessed records, the CSA works with the plan sponsor to obtain missing/invalid information and reloads the file as necessary. Following the resolution of all errors and completion of the upload process, a Status Report is created that lists current census data, which is quality reviewed and provided to the plan sponsor for the final
Manual Participant Additions/Modifications

**DC Plans:** New participants may be added and existing participant data modified through the submission of enrollment forms. These forms must be signed by the plan participant if the enrollment includes the plan participant’s investment direction elections and/or beneficiary designations (2.5). The plan sponsor is responsible for submitting the necessary forms to Principal Life in a timely manner.

Upon receipt, the enrollment forms are scanned into Express and an Express request is created. The request is routed to the queue where it is retrieved by a Worker for processing. All manually completed requests are subject to a random quality review. A Worker verifies the accuracy of the process based upon documented checking procedures. The Express request is Passed or Failed based upon the results of the review. If Failed, the request is returned to the Worker for corrections (2.6). Management monitors the Worker Efficiency and Quality Reports on a monthly basis, and action is taken if an employee’s efficiency and quality goals are not being met on a consistent basis (2.8, 6.8, 7.10). Refer to the Description of Processing Environment (Express Processing) for additional details. The participant additions and modifications are then posted automatically to the Recordkeeping and Accounting system on the day of the activity (2.7).

**DB Plans:** New participants may be added and existing participant data modified through the submission of enrollment forms.

Manual enrollment forms must be signed by the plan participant only if the plan allows employee contributions and the plan participant’s investment direction elections and/or beneficiary designations are included (2.5). The plan sponsor is responsible for submitting the necessary forms to Principal Life in a timely manner.

For DB plans that utilize LVIndiv for the determination of benefits, upon receipt of enrollment forms, the forms are scanned into Express and an Express Request is created. The request is routed to a queue where it is retrieved by a Worker for processing. The participant record is built by the Worker in Express. If an exception is encountered in the processing, the request is routed to the queues for a Worker to resolve the exception and finish processing the request (2.4, 6.5, 7.5).

The participant additions and modifications are then posted automatically to the Recordkeeping and Accounting system on the day of the activity (2.7).

A quality review of new participants is performed during the annual DB plan anniversary process, where a certain percentage of all participants in the plan are reviewed for eligibility and documented through the completion of the Anniversary Checklist (2.9).

For DB plans that do not utilize LVIndiv for the determination of benefits, upon receipt of enrollment forms, the forms are scanned into Express and an Express request is created. The request is routed to a queue where it is retrieved by a Worker for processing. The Worker processes the new participant by inputting the information directly into the Recordkeeping and Accounting
system. The Recordkeeping and Accounting system has edits to check the data entered against certain plan provisions and to perform various reasonableness checks (2.3). Once processed, the participant additions and modifications are then posted automatically to the Recordkeeping and Accounting system on the day of the activity (2.7).

A certain percentage of these updates are selected for a Quality Review through Express. These are randomly selected through the standard Express checking selection function (2.6). Express generates Worker Efficiency and Quality Reports on a monthly basis. On a monthly basis, these reports are monitored by management and action is taken if an employee’s efficiency and quality goals are not being met on a consistent basis (2.8, 6.8, 7.10). Refer to the Description of Processing Environment (Express Processing) for additional details.

**ESOP/KSOP Diversification**

Diversification allows qualified participants to move a limited amount of employer security funds to other investments within the plan, to a related §401(k) plan, or take them as distribution in cash or in-kind. The specifics on what a participant is allowed to diversify and the method is dependent upon plan provisions and the participant’s specific age and service.

**Daily-valued, publicly traded ESOP/KSOP:** Participants are required to submit their diversification election electronically through the Secure Participant Website. The eligible participants may elect to:

- Transfer eligible shares out of the employer securities account to another investment option within the same plan.
- Transfer eligible shares out of the ESOP/KSOP to another plan.
- Receive a distribution in cash or in-kind.

When the election is made on the Secure Participant Website, an Express request is generated (2.4). The processing of the request is delayed until the funds arrive from the trustee at which time it is processed by a Worker. When the request is completed, the transfers are posted to the Recordkeeping and Accounting system (2.7). Refer to the Description of Processing Environment (Express Processing) for additional details.

**Other ESOP/KSOP:** Participants eligible for diversification may submit their diversification election on the Secure Participant Website or on paper during a pre-defined window of time (2.12). At the close of the window period, CSAs request the Diversification Election Report that shows the participants’ diversification elections (including elections for distribution). The Diversification Election Report is reviewed for accuracy by the Quality Review Team (2.13). After the quality review is complete, the Diversification Election report is provided to the plan sponsor via the Secure Plan Sponsor Website to review for accuracy. Any discrepancies must be reported to Principal Life prior to submitting funds for payout (2.14).

The plan sponsor will authorize the trustee to release funds for the diversification transaction. When the funds are received by Principal Life, the CSA builds an Express request to payout or transfer funds pursuant to the participants’ elections. The request is processed by a Worker and the
transfers posted to the Recordkeeping and Accounting system. See *Disbursements* for the processing of Diversification in Cash or Diversification in-Kind.

**Participant Recordkeeping**

An individual account value is maintained for each plan participant of a DC plan; accordingly, additional controls are required to help ensure that the plan participant’s account value is fairly stated. Activity posted against these accounts includes:

- Contributions and disbursements.
- Interest earned under fixed interest accounts, interest credited from participant loan payments, and investment gains/losses for which Principal Life performs recordkeeping services.
- The transfer of existing retirement funds between various investment options.
- Recordkeeping expenses as selected by the plan sponsor.

The computation and crediting of investment returns to plan participant accounts is performed through account value calculations by separate applications within the system. This computation varies based on the type of investment option selected.

**Investment Returns Computation**

The plan participant’s share of the investment returns of a separate account is calculated by the Recordkeeping and Accounting system using the account’s unit value and the plan participant’s units of participation (3.1). The account value for each account on any given day is calculated through multiplication of units of participation and unit value for that day.

The calculation of interest gain from fixed income accounts (e.g., Guaranteed Interest Account) is calculated by the Recordkeeping and Accounting system using the contract’s fixed rate, the transactional activity and the principal and interest accumulation in the account (3.2).

The investment returns on electronically linked investments utilizing the automated trading platform (e.g., mutual funds, collective investment trust funds, and publicly-traded employer securities) using the automated trading platform are calculated by the Recordkeeping and Accounting system using the investment’s share price and the plan participant’s allotted shares. Publicly-traded employer securities are traded multiple times throughout the day while all other electronically linked investments are valued at the end of each day (3.3).

The investment gains in the Custodial Guaranteed Contract accounts, which are comprised of both the Principal Fixed Income Option and the Principal Fixed Income Guaranteed Option investments, are calculated by the Recordkeeping and Accounting system using a daily crediting rate and the participant’s recordkeeping units (3.4).
Participant and Plan Reporting

Plan Statement Generation

On a periodic basis (monthly, quarterly, semiannually, or annually), as specified in the service agreement with the plan sponsor, Express automatically generates a request for plan statements for DC plans and certain DB plans. System edits prevent Express requests for plan statements from completing until all transactions for the time frame reflected in the statements have posted \((4.3)\). Once the request is in complete status, the request must pass several rules before processing to help ensure the reports are as correct and up-to-date as possible. When the request processes, the Recordkeeping and Accounting system automatically generates plan-level statements for distribution \((4.1)\).

Statements for certain DB plans, including the Immediate Participation Guarantee (IPG) or Deposit Administration (DA) contracts, are prepared by the Dividend Team from the Accounting records as a part of the annual dividend determination process. A manual quality review checking process is in place to help ensure accuracy \((4.1)\).

For DB plans in which the plan sponsor has chosen Principal Life to perform their actuarial services, new participants are checked in the anniversary process by a second Worker. Once that is complete, the Worker sends a notification to the actuarial staff to advise them that the employee data has been updated and the path for finding the supporting documentation. This information, along with a dataset which is automatically produced upon completion of the anniversary process, is utilized by the actuary to determine the necessary plan funding. Reports summarizing the results of the projections and the underlying assumptions utilized in the funding determinations are distributed to plan sponsors.

ESOP Trust Accounting is the process of collecting financial activity for an Other ESOP/KSOP over a period of time to understand the “big picture” of financial activity for the overall plan, as opposed to participant level view. During the trust accounting process, the CSAs reconcile trust or custodial statements to: (1) determine earnings on plan assets; (2) prepare financial statements for use by the plan sponsor and for preparation of the Form 5500; and (3) look for various financial transaction and irregularities. Once all the necessary information is gathered and the statement is prepared by the CSA and reviewed for quality; the reports are sent to the plan sponsor for approval \((4.4)\).

Plan Statement Balancing

To help ensure that out-of-balance plan-level statements are identified on a timely basis, the Recordkeeping and Accounting system performs an automatic check on a daily and weekly basis that compares each Recordkeeping and Accounting transaction processed in nightly cycle. If an out-of-balance situation is detected, the Recordkeeping and Accounting system automatically generates a balancing request within Express which is sent to the queue for resolution. Workers retrieve the requests from the queue and are responsible for identifying and correcting the out-of-balance situation with assistance from a CSA, when necessary \((4.2)\).
**Participant Statement Generation**

**DC Plans:** Statements for participants in DC plans are produced along with the plan statements described above. Plan participant statements are either placed on the Secure Participant Website for viewing or mailed to the participant or plan sponsor, as elected by the plan sponsor (4.1).

A Display of Accounts, summarizing participant accounts, is posted to the Secure Plan Sponsor Website along with other plan statements. The plan sponsor is responsible for reviewing the Display of Accounts and communicating any discrepancies to Principal Life in a timely basis.

**DB Plans:** For DB plans utilizing Principal Life’s actuarial services, participant statements are requested after the annual benefit event record updates are completed. The participant statements are either posted to the Secure Participant Website or mailed directly to the participant or plan sponsor, as directed by the plan sponsor. If the participant statements are sent to the plan sponsor, the plan sponsor is responsible for distributing the statements to participants on a timely basis.

A Display of Benefits, summarizing participant benefits, is printed and mailed to the plan sponsor, who is responsible for reviewing it and communicating any discrepancies to Principal Life in a timely basis.

**Other ESOP/KSOP:** At regular intervals during the year, as determined by the plan sponsor, the CSA prepares participant statements using the chosen statement format. These statements are then automatically generated based on the underlying information in PFGVal (4.1). To further review and confirm the accuracy of the generated statements, the CSA randomly selects statements to validate participants, verifies that balances total correctly, and compares transactions between the activity reports and statements.

As required by the Pension Protection Act, plan sponsors of qualified retirement plans must disclose the investment types of all plan assets. To help them comply with this disclosure requirement, Principal Life also prepares a Cash Investment Disclosure which is a one-page summary of all the investments included in the plan level cash account and sends it along with the participant statements (4.5).

**Fair Market Value Reporting**

The fixed interest account market values and any related market value adjustments resulting from early withdrawal of funds are computed automatically by the Recordkeeping and Accounting system for the Flexible Investment Annuity (FIA) Group Contract, the Accumulation (Provider) Group Annuity Contract and the DC Modular (PCRP-DC) Group Annuity Contract used for DC plans (4.6, 5.1). The market value adjustment on the plan participant level is typically computed by calculating the difference between the applicable U.S. Treasury rate, adjusted according to the contract and the actual interest rate being earned by the account (Note: Some exceptions may apply. See the plan’s contract for verification of the interest rate used.). This difference is multiplied by the remaining term to maturity of the fixed interest account resulting in a market value adjustment factor. The fixed interest account contract value is then multiplied by the market value adjustment factor to determine the market value of the fixed interest account. An adjustment to the contract value of the fixed interest account for market value is only recorded if the resulting
market value is less than the contract value, as Principal Life is contractually obligated to pay only the fixed contract value when a fixed interest account contract terminates as a result of a non-benefit-related withdrawal. The calculated market value is provided to plan sponsors on the annual Guaranteed Interest Account Fair Market Value Report.

For DB plans, the Recordkeeping and Accounting system calculates the ASC 960 fair values based on discounted cash flows to expected maturity, generally representing contract value adjusted to reflect current market interest rates. The contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay plan benefits and administrative expenses. The fair value of DB plan assets is reflected on the Plan Level statements \((4.7, 5.2)\).
Asset Recording

Asset recording (i.e., the recording of contribution and loan payment receipts) can be entered by the plan sponsor through (1) the Secure Plan Sponsor Website, (2) electronic spreadsheet uploaded through PERIS, or (3) entered manually by an authorized Principal Life employee into the Recordkeeping and Accounting system through Pension Masterfile Suspense (PMS).

Contribution and Loan Payment Processing

Secure Plan Sponsor Website: Plan sponsors can submit contribution and loan payment information to Principal Life electronically via the Secure Plan Sponsor Website by manually entering the data, importing the data from a file or using the last submission’s data and making any necessary updates. Refer to the Description of Processing Environment (Secure Plan Sponsor Website) for additional details (6.1, 6.2, 6.3). Pre-processing edits are in place which compare the transaction data entered against certain plan and regulatory provisions, and perform various reasonableness checks when creating or modifying participant records. Contributions and loan payments submitted through the Secure Plan Sponsor Website must clear these edit checks or be fixed by the plan sponsor (6.3).

Funds for contributions and loan payments submitted through the Secure Plan Sponsor Website are automatically transferred via Electronic Fund Transfer (EFT). When the EFT is processed, the funds are debited from the plan sponsor’s bank account and deposited into the appropriate bank account - either Principal Life or Principal Trust (if Principal Trust serves as trustee or custodian for the plan). Any submission received after 3:00 PM CST will begin processing on the next business day. The plan sponsor is notified of the timing of the EFT when the data is transmitted.

Contribution submissions made through the Secure Plan Sponsor Website automatically create an Express request (6.4). For DC plans and DB plans where Principal Life maintains the plan sponsor’s investment elections, the Express system automatically allocates the retirement plan receipts between selected investment options based on the investment direction percentages recorded in either the plan or participant’s account dependent upon whether the plan has plan- or participant-directed investments (6.5).

Generally, these requests are automatically built and completed; however, if an edit prevents this from occurring, they will be directed to a queue for a Worker to research and process. One example of this situation is if the plan sponsor submits a negative contribution to correct an earlier incorrect submission. The Recordkeeping and Accounting system checks the current account balance of participants prior to processing negative contributions. Any negative contribution errors are reviewed by the Worker or CSA, who works with the plan sponsor on a solution (6.6).

Express uses the random checking selection process to identify which deposit requests are selected for checking. If Express identifies a request as one that requires checking, the request is routed from the Worker who performed the data entry to a checking queue where a Worker verifies the accuracy of the process based upon documented checking procedures. The Express request is Passed or Failed based upon the results of the review. If Failed, it is returned to the Worker for corrections (6.7). The Pass or Fail is reflected on the original Worker’s Efficiency and Accuracy
Report, which is reviewed by Management regularly and action is taken if an employee’s accuracy goals are not being met on a consistent basis (6.8).

Once the work has been checked as applicable, the Express request is completed and the participant and plan contributions and loan payments are automatically posted to the Recordkeeping and Accounting system (6.9).

Following the posting of the monies received, an acknowledgment of receipt is automatically prepared by the system detailing how the funds are processed, and sent to the plan sponsor for review. This acknowledgment documents the total amount received by Principal Life and posted to the retirement plan’s records (6.10). This acknowledgement is sent on paper, or (for DC plans) to the Message Center on the Secure Plan Sponsor Website, based on the option selected by the plan sponsor. Plan sponsors are responsible for comparing this information to their records and notifying Principal Life of any discrepancies. Some plan sponsors have chosen not to receive the acknowledgment of receipt. In these cases, the plan sponsor is responsible for developing controls to verify the accurate receipt of the plan deposits by Principal Life.

**PERIS:** In some instances, transactions are received by Principal Life from plan sponsors of DC and DB plans in the form of electronic spreadsheets that contain the contributions and loan payments that needs to be added to the Recordkeeping and Accounting system. In such cases, the data is uploaded to the Recordkeeping and Accounting system via PERIS and no manual data entry is needed. Once the file has been uploaded, PERIS performs edit checks to compare the data against permitted values. Any errors detected by this process are reported to the CSA for investigation and resolution (6.3). Refer to the Description of Processing Environment (PERIS) for additional details.

**Paper Submission Funding:** For DC plans, a paper allocation report may also be received from the plan sponsor that documents the allocation of the deposit per plan participant between contributions and loan payments. A deposit request is built on Express. The request goes to the queue, where it is retrieved and manually processed by a Worker. When manually entering contributions and/or loan payments to participant accounts, the total of all participant entries must equal the total plan sponsor deposit amount transferred into Express from PMS before the Worker can continue (6.13). Refer to the Description of Processing Environment (Express Processing) for additional details.

Generally, any cash related to an upload or paper submission is received in the form of checks, wires or ACHs. These are initially entered into the Recordkeeping and Accounting system through PMS by Processing Technicians in Corporate Scanning and Distribution for checks and by General Accountants in RIS-Finance for wires and ACHs based on the contract number. The Technician enters the contract number and the amount into PMS, verifying the name of the check matches PMS (6.11). The check is then endorsed and a deposit spreadsheet is created.

The checks are electronically deposited with the bank by the Technicians. Any submission received after 3:00 PM CST will begin processing on the next business day.

After all of the checks are deposited, the checks and the deposit tapes are locked in a cabinet and destroyed after 30 days. The receipts entered into PMS are processed during nightly batch processing and a daily pension journal is generated.
On the day following the deposit, RIS-Finance reconciles the amounts deposited to the cash recorded on PMS (6.11). An entry is posted to cash suspense for any differences detected by this reconciliation. Next, a correction log form, which monitors the amount of the reconciling difference, is prepared. RIS-Finance is responsible for researching all reconciling differences and preparing correcting entries. These entries are also documented on the correction log form, which documents all correcting entries and serves as evidence that the daily zero-balancing was performed.

The procedures related to recording wire transfers are similar to the above processing, except there are additional balancing procedures related to wire transfers. Daily, Treasury Operations balances batches of RIS-Finance wire transfers to bank advices; any out-of-balance conditions are researched and corrected by RIS-Finance (6.11).

To help ensure that all monies received by Principal Life are posted to a plan sponsor’s records on a timely basis and that transfers between PMS and the Recordkeeping and Accounting system are for the correct amount and contract period, the Pension Masterfile Aging Report is automatically generated on a weekly basis and Assistants in Administration review and resolve items reflected on it in a timely manner (6.12).

**ESOP/KSOP Contributions and Allocation**

Plan sponsors may send contributions to their ESOP/KSOP throughout the year or as a single deposit. Contributions are entered to an unallocated account that is held until the plan year-end. As part of the annual data collection process, the plan sponsor provides Principal Life with the payments made on the ESOP loan for the plan year including the source of the payment (contributions, dividends, or existing cash in the plan). Principal Life prepares amortization schedules for the outstanding leveraged loans to calculate future interest and calculates the number of shares to be released.

A participant allocation, including the allocation of the release of leveraged loan shares, is prepared by the CSA using PFGVal. Vesting is automatically calculated by PFGVal at the same time (6.14). At the end of the year, eligibility for the contribution is determined and an allocation is performed in PFGVal.

The Account Activity Report is prepared showing the detail of the participant allocation and reviewed by a member of Quality Review Team for accuracy (6.15). Once reviewed, the Account Activity Report is sent to the plan sponsor for review, and approval (6.16). Once the Account Activity Report has been approved, the allocation is uploaded into the Recordkeeping and Accounting system (6.9).

Segregation of functions is maintained between and within the various user departments involved in asset recording (6.17).
Disbursements

Disbursements result for various reasons:

- In-service disbursements (e.g. disbursements which can be taken while a participant is still actively employed) and participant loans from DC plans.
- Benefit event disbursements due to a participant’s death, disability, or termination of employment.
- Internal Revenue Code (IRC) required disbursements such as required minimum distributions and corrective distributions from DC plans.
- IRC §404(k) dividend paid in cash or in-kind, or a distribution as part of the diversification process under an ESOP/KSOP.

In-Service Disbursements

**Participant Loan Requests:** A participant may request a loan from a DC plan if the plan allows. Loan requests can be submitted via paper or the Secure Participant Website. Refer to the *Description of Processing Environment (Secure Participant Website)* for specified protocols the participant must use to access the Secure Participant Website and confirm requests submitted (7.1, 7.2).

**Electronic Loan Requests (excluding eSignature)** – Electronic loan requests can be submitted through the Secure Participant Website by either the participant or the plan sponsor on behalf of the participant. To set up this service, the plan sponsor must complete an Electronic Loan Payout Authorization form and accept this service as the only loan request method allowed. The loan is requested on the Secure Participant Website where the request interfaces with numerous edits in the Recordkeeping and Accounting system to ensure the participant correctly enters all necessary information and the participant is not issued a loan that does not follow plan provisions (7.4).

When the loan request is submitted on the Secure Participant Website, an Express request is automatically generated and processed (7.5). If the request encounters omissions, the request is routed to the queue and manually processed by a Worker (7.6). The Worker retrieves the request, generates the official loan documents, and requests the check or ACH.

Express randomly selects manually processed loan requests for checking by another Worker based on a predetermined percentage (7.9). Management monitors the accuracy of the Worker processing and addresses any goals that are not met (7.10). Refer to the *Description of Processing Environment (Express Processing)* for additional details.

Once the request is completed and cycles, the check and loan documents are automatically produced and mailed to the plan sponsor for signing and delivery. The participant loan is then posted to the Recordkeeping and Accounting system (7.11). The Recordkeeping and Accounting system generates a pension journal of the transactions entered (7.12).
eSignature Loan Requests – Principal Life also offers an eSignature Loan Service. An eSignature participant loan is requested electronically by the participant on the Secure Participant Website. To allow this service, the retirement plan must meet certain requirements such as not requiring spousal consent for a participant loan. An authorized representative of the plan sponsor must complete an eSignature Loan Authorization Form or have the eSignature Loan Service provision in the enhanced service agreement, which is used to enable the system to make this type of loan service available. (7.16).

Unlike other electronic loan requests, upon requesting an eSignature loan, the applicable loan documents are immediately completed and presented to the plan participant on-line. The plan participant must accept and sign these documents by electronically confirming their submission for the request and for the loan documents and disbursement to be processed (7.17). Once the request is submitted and cycles, the ACH or check is automatically produced and mailed to the participant. The loan is then posted to the Recordkeeping and Accounting system (7.11). The plan sponsor is provided with reports on the Secure Plan Sponsor Website that help the Loan Administrator manage the participant loans.

Manually-Submitted Loan Requests – Participants may also request a loan by manually submitting a paper loan request to the plan sponsor. The plan sponsor prepares the loan documents and submits the loan request to Principal Life. Upon receipt of the loan request, a Request Examiner builds an Express request which is sent to the queue for processing by a Worker. The Worker verifies the loan request has been signed by an authorized signer of the plan sponsor (7.3) and processes the request. Requests are randomly selected by Express to check for accuracy by another Worker (7.9). Management monitors the accuracy of the Worker processing and addresses any goals that are not met (7.10).

Once the request is completed and cycles, the check is automatically produced and mailed to the participant or plan sponsor, as the request form indicated. The loan is then posted to the Recordkeeping and Accounting system (7.11). The Recordkeeping and Accounting system generates a pension journal of the transactions entered (7.12).

Active Member Disbursement Requests: A DC plan specifies the type of disbursements participants are allowed to make. Participants request an in-service disbursement by completing an Early Withdrawal of Benefits Form and forwarding it and any supporting documentation to the plan sponsor for review. The plan sponsor must review the disbursement request to verify it is appropriate per the plan provisions and, if so, sign the Form and forward it to Principal Life.

Upon receipt of the disbursement request, a Request Examiner builds: (1) an Express request or (2) an IBPM request, if the transaction relates to a DC benefit event disbursement, which is sent to the queue for processing by a Worker. The Worker verifies the disbursement request has been signed by an authorized signer of the plan sponsor (7.3) and processes the request. Requests are randomly selected by Express and manually selected from IBPM on a random basis to check for accuracy by another Worker (7.9). Management monitors the efficiency and quality of the Worker processing and addresses any goals that are not met (2.8, 6.8, 7.10).

Once the request is completed and cycles, the ACH or check is automatically produced and mailed to the participant or plan sponsor, as the request form indicated. The disbursement is then posted
to the Recordkeeping and Accounting system \((7.11)\). The Recordkeeping and Accounting system also generates a pension journal of the transactions entered \((7.12)\).

Plan sponsors can also opt to utilize Principal Life’s Withdrawal Service. When using this service, Principal Life agrees to review disbursement requests and supporting documentation and either approve or decline requests based on plan requirements. A different Early Withdrawal of Benefits Form is used under this structure, which does not require a plan sponsor sign-off.

**IRC §404(k) Dividends**

Throughout the year, an ESOP or KSOP may provide a §404(k) dividend to the participants of the plan. The dividend is automatically re-invested to the participant’s employer stock account unless the participant elects via the Secure Participant Website to receive a cash payout. The processing of the dividend re-investment is described in *Non-Proprietary Asset Management – Income Collection and Asset Valuation*.

**IRC §404(k) Dividend Disbursement:** For those participants who have elected a cash payout, upon reaching the payable date of the §404(k) dividend, an Express request is automatically built and processed to make the distribution \((7.19)\). If errors are encountered, the request is routed to the queue for processing by a Worker. If no errors are encountered, upon completion of the Dividend request, the §404(k) dividend is automatically reinvested into the employer security account. The Recordkeeping and Accounting system then generates a disbursement Express request which is automatically processed. Requests are randomly selected for checking through the standard Express checking selection function \((7.19)\). Once the request is completed and cycles, the ACH or check is automatically produced and mailed to the participant. The §404(k) dividend is then posted to the Recordkeeping and Accounting system \((7.11)\). The Recordkeeping and Accounting system generates a pension journal of the transactions entered \((7.12)\).

All manually processed requests are selected for Quality Review prior to the completion of the request \((7.19)\). Management monitors the accuracy of the Worker processing and addresses any goals that are not met \((7.10)\).

**ESOP/KSOP Diversification Disbursement:** When the requested funds are received from the trustee, the Express distribution requests previously placed on delay are released and processed by a Worker. When the requests are processed, the distributions are made to the participant and posted to the Recordkeeping and Accounting system \((7.25)\).

**Benefit Event Notification**

The plan sponsor notifies Principal Life when a plan participant is eligible for a benefit event distribution from the plan due to termination of employment or disability through completion of a Benefit Event Notification form. That form is entered manually into Express or IBPM by a Worker, submitted to Principal Life via the Secure Plan Sponsor Website or a PERIS file upload. Refer to the Description of Processing Environment (Secure Plan Sponsor Website, Express Process or PERIS) for more information on controls in place for authentication.
Upon notification of the benefit event:

- For a DC plan, Principal Life automatically calculates the vested balance.

- For a DB plan, a Worker manually prepares a quote to determine the current benefit amount.

If the participant’s account balance or benefit amount (herein referred to as account balance) is less than $200 (and it’s a DB plan that allows for immediate cash distributions), a disbursement is processed immediately to the participant or beneficiary (7.15).

If the participant’s account balance is $200 or more, the participant can choose from several distribution options on-line or by calling a toll-free number for individual assistance, in which case they will be mailed a packet of information including a benefit payment request form based on plan design for his/her funds.

The following distribution options may be available to the plan participant, based on plan design and provisions:

- Cash payout.

- A rollover to another qualified retirement plan or Individual Retirement Account (IRA).

- In-kind disbursements of employer stock.

- Scheduled payments from the plan.

- Purchase of an annuity.

Based on the disbursement options presented to them, participants are able to initiate a disbursement using the Secure Participant Website or submit a disbursement request form manually to Principal Life. Although a plan sponsor may offer online distributions through the Secure Participant Website, there are certain participant-level exclusions that are taken into consideration (e.g., Roth §401(k) contributions, etc.). In these instances, a disbursement request must be manually submitted to Principal Life.

For a DB plan, the participant (or beneficiary) may also submit a benefit payment request form to the plan sponsor to initiate a benefit distribution. Upon receipt, the plan sponsor is responsible for reviewing the request form to determine: (1) the information is accurate and complete, (2) the participant is authorized under the plan document to receive a distribution, and (3) the participant has met the plan’s requirements for a distribution. The plan sponsor will then forward the request form to Principal Life. If the plan sponsor has already completed a Benefit Event Notification form, the participant can send the benefit request form directly to Principal Life.

If the benefit payment request form is not returned within a predefined time-frame and an electronically requested distribution has not been made on the Secure Participant Website, the following occurs according to Small Amount Force Out (SAFO) provisions of the plan based on the account balance at the time of distribution (7.15):
• Account balances at least $200 and less than $1,000 will automatically be distributed to the participant as a lump sum cash distribution (DB plans - must be a plan that allows for immediate cash distributions).

• Account balances $1,000 or greater, but under the SAFO limit specified in the plan document, will automatically transfer to the designated IRA provider in an account established in the participant’s name.

• Account balances greater than the SAFO limit specified in the plan document will remain assets of the plan until a benefit election is made.

• Each month a list showing DB participants who were presented with their distribution options, fall below the SAFO threshold, and have not taken action in a timely manner is provided to CSA Assistants for review. If the funds should now be forced out under SAFO provisions, the Assistants ensure that happens (7.15). This happens automatically by the Recordkeeping system on the DC side as described above.

**Participant Benefit Requests (excluding annuities)**

**Electronic Disbursement Request Submissions:** Participants of DC plans are able to initiate disbursement requests using the Secure Participant Website, if permitted by the plan sponsor. After the plan participant is authenticated, they can input the desired request for disbursement. Pre-processing edits are in place which compare data entered against certain plan provisions and perform various reasonableness checks when modifying records or requesting disbursements for participants (7.4). Any actions submitted via the Secure Participant Website must be confirmed prior to submission by re-entering the requestor’s password (7.2).

Upon submission of the participant’s request, the Secure Participant Website automatically builds and processes a disbursement Express or, for DC benefit event disbursements, IBPM request (7.5). Refer to the *Description of Processing Environment (Express Processing)* for additional details.

All distributions requested electronically via the Secure Participant Website (excluding distributions from Other ESOP/KSOPs and participant loans) are recorded on a confirmation report available upon request.

**Manual Disbursement Request Submission:** If benefit payment requests on DC or DB plans, disbursement requests (including Diversification disbursement requests) or participant loan requests are submitted via a paper form, an Express or, for DC benefit event disbursements, IBPM request is built. The disbursement request is routed to the queue and manually processed by a Worker. All manually submitted disbursement requests are reviewed to verify the disbursement is authorized by the plan participant and in some cases (e.g., in-service disbursements) by the plan sponsor (7.3). If omissions are noted, the request is routed to the CSA for investigation and resolution. Once resolved, the request is returned to the Worker for processing. Refer to the *Description of Processing Environment (Express Processing)* for additional details.

Express and IBPM have many built-in checks to automatically edit and validate disbursement requests against contract and plan provisions, current account balances, as well as compliance
requirements (7.6). In addition, the system has automated edit controls that detect invalid plan identification, contract, and plan participant numbers; entries with invalid identifiers are rejected by the system. At any point in the process, the request can be routed to the CSA if questions arise regarding request validity or if additional information is needed from the plan sponsor and/or plan participant.

For DB plans, the disbursement amount can be manually calculated, partially calculated by LVIndiv and the Recordkeeping and Accounting system, or fully calculated by LVIndiv.

- If the benefit is on a contract not converted to LVIndiv, the benefit amount can be calculated by the Recordkeeping and Accounting system or manually (7.7). A second, manual calculation of all or part of that calculation is performed, depending on whether the participant is terminated, to verify the accuracy of the value.

- If the benefit is on a contract which is partially converted to LVIndiv, the benefit is calculated by LVIndiv and then manually re-performed and checked by the DB Technician (7.7).

- If the benefit is on a contract that is fully converted to LVIndiv, the calculation is fully prepared by LVIndiv (7.7). The Worker processes the Express request to obtain the calculation.

All manual calculations are reviewed by a second Worker for accuracy. Based on plan coding, those calculations performed by recordkeeping are compared to a manual calculation or reviewed for reasonableness. Those performed by Express are subject to the standard Express checking selection function to be manually re-performed and checked by a Worker (7.9). If any errors were made, the request is returned to the previous Worker for corrections. Results of the checking performed by the second Worker are recorded within the Express request. Management monitors the Worker Efficiency and Accuracy Reports on a monthly basis, and action is taken if an employee’s accuracy goals are not met on a consistent basis (7.10).

Once the request is free of errors, the request is completed and the disbursement is posted to the Recordkeeping and Accounting systems (7.11). In addition, the Recordkeeping and Accounting system generates a pension journal of the transactions entered (7.12). Refer to the Description of Processing Environment for additional details on the processing controls.

Other ESOP/KSOP Disbursements

eDistribution Service: Principal Life offers eDistribution Services to other ESOP/KSOP plan sponsors if the plan’s distributions policy fits within the service parameters. Prior to enabling eDistribution Service, the CSA updates the Recordkeeping and Accounting system with the most recent allocation dates, as well as verifies that participant addresses on the Recordkeeping and Accounting system match the information coded in PFGVal.

Eligibility for the payout and the total amount eligible to be paid is determined by the system based on participant contribution types and investment. This information is reflected on the Distribution Eligibility and Election Report (DEER) and compared to PFGVal records to confirm the DEER calculations are correct. These calculations are also reviewed by the Quality Review Team for
accuracy (7.20). At that time, the CSA notes in their file the participants who need to receive a Required Minimum Distribution (RMD) and the amounts.

The DEER is then provided to the plan sponsor on the Secure Plan Sponsor Website. Any discrepancies should be reported to Principal Life in a timely manner. If the plan sponsor has elected for Principal Life to send the distribution notices notifying participants of their eligibility, the notices are produced and mailed upon receiving approval of the DEER. During a pre-defined window of time, the distribution options on the Recordkeeping and Accounting system are turned on and eligible plan participants can make their distribution election through the Secure Participant Website (7.21). Once a participant logs into the Secure Participant Website to make their distribution election, an Express request is automatically generated and a confirmation letter is sent to the participant (7.22).

Once the window for participant elections has closed and all requests received on paper have been recorded, the DEER is updated to reflect all distributions requested and re-posted to the Secure Plan Sponsor Website. The plan sponsor must review it and report any discrepancies to Principal Life prior to submitting funds or approval for payouts (7.23). If all of the elected distributions are deemed appropriate by the plan sponsor, the participant distribution Express requests are generated and routed to a CSA Assistant for handling.

If the plan sponsor does not use Principal Life for check writing and tax processing, the participant distribution request is completed and the recordkeeping entry is recorded. If the plan sponsor has requested Principal Life process the checks for distribution, the Assistant monitors the participant distribution requests until the funds have been received from the plan sponsor for distribution. The participant distribution request is then released for completion. The participant distribution is processed, posted to the Recordkeeping and Accounting systems (7.11) and the corresponding tax records are generated (7.14). The Recordkeeping and Accounting system generates a pension journal of the transactions entered (7.12).

**Non eDistribution**: If the plan sponsor does not use eDistribution Services and Principal Life is hired to determine eligibility for distributions, the CSA manually determines the employee eligibility for a distribution by using the distribution policy for the plan and the participant data from PFGVal. If Principal Life is hired to mail participant distribution notices, the CSA also prepares the notices for the eligible employees informing them of their eligibility for a distribution and the window of time in which they can make an election for distribution. Notices are reviewed by the Quality Review Team and mailed to the participants.

The eligible participants complete the required forms including a Request for Benefits Form and return the forms to the plan sponsor or Principal Life within the predetermined window of time. If the plan sponsor has hired Principal Life to advise the trustee of the participant distribution elections, the CSA utilizes PFGVal to prepare the DEER which is reviewed by the Quality Review Team for accuracy and sent to the plan sponsor for approval (7.23).

If checks and tax records will be prepared by the plan sponsor or their trustee, the CSA sends the DEER and wire instructions to the plan sponsor and the plan sponsor or their trustee will pay the funds to the participants.
If Principal Life is responsible for preparing checks or tax records, distribution Express requests are built and processed. Express selects a random percentage of requests for checking by another processor (7.9). Recordkeeping and Accounting entries are made (7.11) and tax reporting is completed (7.14). The Recordkeeping and Accounting system generates a pension journal of the transactions entered (7.12).

**Additional Distributions**

If additional funds are received after a terminated participant or beneficiary account has been fully paid out, the Recordkeeping and Accounting system has a process in place to pay out those funds automatically. Occasionally, there are multiple additional distributions made to a participant.

**Under $200** – An Express request is automatically built to distribute the funds in cash to the participant.

**$200 or greater** – An Express request is automatically built. The Recordkeeping and Accounting system looks at the most recent payout made to the participant and pays the funds out in the same way (e.g., cash payout, rollover to another qualified retirement plan, etc.).

Once the request is free of errors, the request is completed and the disbursement is posted to the Recordkeeping and Accounting system (7.11). In addition, the Recordkeeping and Accounting system generates a pension journal of the transactions entered (7.12). Refer to the Description of Processing Environment for additional details on the processing controls.

**Recording of Disbursements**

**Tax Withholding:** Based on the information input into the request manually or electronically, disbursement amounts and tax withholdings are automatically calculated by Express or IBPM, taking into account any Roth funds and outstanding taxable and/or non-taxable loans (7.14). An individual tax record is recorded in the Thompson Reuters OneSource tax reporting system. The amounts withheld from the participant’s disbursement are forwarded daily to Corporate Payroll who remits the funds to the federal and state agencies.

**Forfeitures:** If the disbursement is for a participant benefit event on a DC plan, the non-vested funds are moved into the plan sponsor’s forfeiture account and used on the date defined by the plan document (15.2):

- Immediate Availability – Non-Vested Funds move into the forfeiture account on the date of the participant’s distribution (or 5 years, whichever comes first). They are available for use immediately.

- 5 Year Break-in Service – Non-Vested Funds must stay in the participant’s account for 5 years (or forfeiture date) before they can be moved into the forfeiture account and used by the plan sponsor.

**Cash Payout or External Rollover:** Disbursements may be processed in the form of a check or ACH, based on plan participant and/or plan sponsor direction. Each method requires appropriate
approval from management of RIS-FSA based on a sliding scale (7.8). After data entry, a system edit directs the Worker to forward the request for authorization. Any requests that are automatically built and processed without human intervention by the Worker are not subject to such an approval.

Approved disbursements in the form of an ACH are built into a file during the nightly batch cycle. The next day, this file is used to automatically build individual records within the Treasury Administration System (TAS). The ACH files are released to the bank utilized by Principal Life. The following day, each participant’s bank account is updated.

TAS processes the benefit payment file individually during the nightly batch cycle and generates the plan participant’s or beneficiary’s checks and a check register. The checks produced by TAS are directly mailed to the participant.

**Internal Rollover:** Benefit payments in the form of an internal rollover are transferred in total once a day through TAS.

Each day, RIS-Finance receives an automatic notification from the Recordkeeping and Accounting system identifying the total amount of the rollover transfers to Principal Funds and/or Principal Bank generated from the processing of participant disbursements. RIS-Finance reconciles the transfer amount to the Principal Funds and Principal Bank report and immediately researches and resolves any differences (7.18). Once in balance, a transfer of the total internal rollover amount from RIS to Principal Funds and/or Principal Bank is then processed using TAS. For each transfer amount, deposit allocation instructions are provided to Principal Funds and/or Principal Bank providing the details as to how to allocate the transfer amount among the participant or beneficiary accounts.

**In-kind Disbursements:** In-kind distributions of employer securities are electronically transferred to the plan participant’s non-retirement plan account and processed by the Worker, as discussed previously, by entering the Depository Trust Company information into an Express request. An electronic file is transferred to Bankers Trust each night detailing the requested disbursement and is processed as discussed in the *Non-Proprietary Asset Management System* section. The disbursement is not released until RIS-Finance receives confirmation from Bankers Trust that the electronic transfer of shares has occurred, which is typically within seven to fifteen days.

**Pension Journal Reconciliations:** On a daily basis, RIS-Finance reconciles the pension disbursements in TAS to the pension journal to verify the two systems are in balance (7.13).

The ability to build a disbursement request, process the request, sign the check and distribute the payment, and perform cash reconciliation procedures are segregated between the Request Examiners, Workers, RIS-Finance and Corporate Accounting (7.25).
Proprietary Asset Management

Fixed Interest Rate Determination for Investment Contracts

Rate Determination and Approval: For products that include a Guaranteed Interest Account (i.e., FIA, PCRP, FPI-99, PRO), the fixed rate can change in two ways: (1) daily interest rate changes and (2) deduct changes described below:

- Daily interest rate changes – The RIS Fixed Income Team assesses interest rates daily and typically makes rate changes on Monday, Wednesday and Friday of every week if needed. If the suggested rate change is significant (more than 50 basis points) on a Tuesday or Thursday, rates will be changed on those days as well. Proposed rate changes are sent to the RIS Pricing Committee for approval (8.1).

- Deduct changes – RIS-Finance actuaries review the interest rate deducts on a monthly basis. Any proposed deduct changes are discussed and, if applicable, approved in a monthly meeting with the RIS Pricing Committee (8.1).

Fixed rate changes for FPI-87, DA and IPG product types are reviewed quarterly by the RIS Chief Actuary, RIS CFO and Corporate Chief Actuary. The fixed rate is dependent on the assets purchased during the quarter. The calculation and cash out factor changes for the FPI-87, DA and IPG product types follow the same process as the Guaranteed Interest Account changes.

Principal Fixed Income Option and Principal Fixed Income Guaranteed Option interest rates are evaluated and changed every six months. Proposed rate changes are discussed and approved in rate setting meetings (8.1).

Rate Coding: If interest rate changes are approved, the rates are communicated to the applicable teams for coding of the rates into the Recordkeeping and Accounting system. These rates are further reviewed for completeness and accuracy through a peer review (8.2).

Once all rates are reviewed, approved and entered into the system, RIS informs the Rate Desk and sends a message to all relevant personnel indicating a rate change has been made and includes the changes.

Cash out factor changes are coded into the Recordkeeping and Accounting system and are further reviewed for completeness and accuracy through peer review (8.3). Access to change interest rate and cash out factors is managed through Role and Access Management System (RAMS) and restricted to users who require such access based on their job responsibilities (8.4).

Principal Life’s Pooled Separate Accounts

Principal Life offers pooled separate accounts as investment options for their retirement plan sponsors. Under these options, the plans purchase group annuity contracts through which they access the investment experience of related separate accounts owned by Principal Life (rather than having a direct ownership interest in the underlying financial instruments held by the separate accounts), which are valued on a daily basis. Accordingly, the purchases and sales of individual
financial instruments within the separate accounts, and the related collection and recording of income on the affected investments, are not addressed in this report.

Principal Life has engaged State Street – Kansas City, to perform: (1) the recording of investment transaction activity, (2) the collection and recording of investment income and (3) the valuation of the investments underlying the pooled separate accounts that invest in multiple securities covered in this examination. The Principal Life Pooled Separate Account Investment Managers and Valuation Agents matrix located in Section V – Other Information Provided by Principal Life identifies which pooled separate accounts invest in multiple securities.

**Separate Account Oversight:** The operation of each separate account is supervised by Principal Life. The Board of Directors of Principal Life appoint an Investment Committee that is responsible for the ultimate evaluation and supervision of all investment activities for Principal Life, including those activities associated with the separate accounts. Responsibilities of this committee include appointing registered investment advisers as investment managers, determining the custodian to hold the assets, hiring a valuation agent and establishing the investment policies for the separate account portfolios.

Two committees have been established to provide governance and oversight of the pooled separate accounts. The RIS Separate Account Governance Committee, chaired by the President of RIS and made up of senior executives of RIS and others appointed by the President, is charged with the evaluation and approval of:

- Changes in the separate account investment line-up including the addition, closing and merger of separate accounts.
- Significant separate account operating policies.
- Significant changes to the operations supporting the separate accounts.
- Changes to the Separate Account Plan of Operations document or equivalent documentation of separate accounts where no Plan of Operations is required.
- Suspension of delay of contributions/distributions.
- Other significant changes to the separate accounts as deemed necessary by this committee.
- Other significant decisions escalated by the Separate Account Operations Committee.

The second committee is the RIS Separate Account Operations Committee, which is made up of senior RIS operational leaders and other relevant subject matter resources who are appointed by the Separate Account Governance Committee. The Separate Account Operations Committee is charged with overseeing the provision of administrative activities of the various separate accounts, communication to separate account unit holders and oversight of separate account operations. The committee also evaluates investment, policy, product and other operating changes to the separate accounts before they are presented to the Separate Account Governance Committee for approval.
**Investment Manager/Sub-Advisers for the Separate Accounts:** Principal Life is the investment manager for each of the pooled separate accounts. For certain separate accounts Principal Life selects one or more sub-advisers to assist in the management of the assets. Sub-advisers provide custodian cash and position reconciliations to Principal Life on a monthly basis. Principal Life reviews the reconciliations to help ensure that no material outstanding differences exist.

The controls related to the activities performed by the sub-advisers engaged by Principal Life have not been included in the scope of this examination.

**Custodian for the Separate Accounts:** Principal Life owns the assets within the pooled separate accounts, but does not act as custodian. Various custodians are engaged to hold those assets on our behalf. Reconciliations with the custodians are prepared as described in the *Valuation Agent for the Separate Accounts: State Street – Kansas City* section.

The controls related to the processing performed by the custodians engaged by Principal Life for the separate accounts have not been included in the scope of this examination.

**Valuation Agents for the Separate Accounts:** Principal Life selects a valuation agent for each separate account who determines the value and pricing of the assets in the separate accounts based on defined pricing and valuation policies. The following are the various valuation agents responsible for the separate accounts covered in this examination:

- **State Street – Kansas City:** State Street – Kansas City is responsible for recording, monitoring and the valuation of the investments underlying the pooled separate accounts that invest in multiple securities. To monitor these activities, various controls are in place, including:
  - On a monthly basis, RIS-Finance reviews State Street – Kansas City’s report on their asset reconciliation to the custodian’s to confirm reasonable explanations are provided for material differences (9.1).
  - On a monthly basis, RIS-Finance reviews State Street – Kansas City’s report on the daily cash reconciliations to the custodians to confirm reasonable explanations are provided for any material differences (9.2).
  - On a daily basis, State Street – Kansas City performs a reconciliation between Principal Life’s corporate general ledger accounts and entries made in State Street – Kansas City’s PAM accounting system for each separate account. RIS-Finance reviews this reconciliation for any differences and determines the appropriate action to correct (9.3).
  - On a monthly basis, RIS-Finance reviews the general ledger account reconciliations performed by State Street – Kansas City to assess if all pooled separate account general ledger accounts have been received and reconciled.
  - RIS-Finance reviews monthly reports (including cash reconciliations and asset reconciliations) provided by State Street – Kansas City to assess if there are any material corporate actions outstanding.
• On a monthly basis, RIS-Finance reviews State Street – Kansas City’s report showing their reconciliation of the asset positions to the sub-advisers to confirm there are no unexplainable material differences (9.4).

• A Stale Pricing Report, which includes detail about stale pricing used in the portfolio valuation, is included in the Monthly Key Indicator report provided by State Street – Kansas City. This report is reviewed by RIS-Finance to determine whether appropriate follow-up activities were performed on items noted (9.5). A new security price is included in the report if the security price remains unchanged for five business days.

• State Street – Kansas City reports price errors when identified and resolved. The price errors are provided to and reviewed by the Principal Life Separate Account Valuation Workgroup and summarized quarterly (9.6).

• State Street – Kansas City performs a reconciliation of Gross Asset Value (GAV) between the respective sub-adviser’s accounting records and State Street – Kansas City’s accounting records on a monthly basis and reports to RIS-Finance in the Monthly Key Indicator report. State Street investigates any differences greater than a defined tolerance level on the ending GAV and provides notification to RIS-Finance (9.5).

**Principal Life:** Principal Life is the valuation agent responsible for calculating the net asset values of:

• The Principal Life separate accounts that invest in a single mutual fund.

• The Principal Life separate accounts that invest in other Principal Life separate accounts.

• The Principal Life separate accounts that invests in both mutual funds and other Principal Life separate accounts.

The net assets of the separate accounts are calculated using the Recordkeeping and Accounting system. See [Daily Unit Value Computation](#).

**Principal Real Estate Investors, LLC:** Principal Real Estate Investors, LLC is the valuation agent for the Principal U.S. Property Separate Account. Refer to the Annual Report for U.S. Property Separate Account on the Secure Plan Sponsor Website for additional information.

**Principal Global Investors, LLC:** PGI is the valuation agent for a small portion (approximately 5%) of the Principal Core Plus Bond Separate Account.

**Recordkeeping of Units of Participation:** Principal Life uses a unit value system of recordkeeping to track its obligations related to the pooled separate accounts. Plans investing in pooled separate accounts hold units of participation in the overall account. The Recordkeeping and Accounting system automatically maintains the ongoing units on a contract-by-contract basis (10.2).

Within each pooled separate account may be multiple rate levels. While all rate levels within a pooled separate account receive the same gross investment performance, the distinguishing factor
between rate levels is that each rate level has a different annual expense charge. These charges differ due to the different methods of recovering costs for various products or plan sponsors; some expenses are billed directly while others are deducted from performance. The Recordkeeping and Accounting system maintains the units for each rate level for each separate account (10.2).

**Daily Unit Value Computation:**

- **Separate Accounts with Multiple Securities:** Each business day, the net asset value of each separate account that invests in multiple securities is calculated and provided to RIS-Finance by State Street – Kansas City. The net asset value reflects all investment transactional activity as a net contribution or disbursement processed through the end of the prior day. State Street – Kansas City uses this market value to calculate the investment performance percentage (IPP) on the change in assets. The market value and the IPP are transmitted by State Street – Kansas City to Principal Life’s Recordkeeping and Accounting system on a daily basis. The Recordkeeping and Accounting system uses the IPP to adjust the beginning market value of each rate level to the current day market value. Next, the system calculates and deducts the appropriate expenses from the current day market value for each rate level. The Recordkeeping and Accounting system then calculates a unit value for each rate level by dividing the assets (adjusted for market performance and expenses) by the beginning units of each rate level (10.1).

On closed market days, the market value of the portfolio from the previous day is rolled forward based on all contributions and disbursements processed through the end of the prior open market day. The percent change of assets is calculated at zero, and the remainder of the process continues as noted previously.

- **Balanced Separate Accounts:** The balanced separate accounts hold units in other separate accounts. After the Recordkeeping and Accounting system has calculated the underlying separate account unit values using the method described in the *Separate Accounts with Multiple Securities* section, the system automatically calculates the market value of the units held in the underlying separate accounts for each rate level. The system accomplishes this by multiplying the units for each underlying separate account by the underlying separate account’s unit value. Next, the system sums the market values held in each underlying investment to arrive at the market value for the balanced separate account rate level. Finally, the Recordkeeping and Accounting system calculates a unit value by dividing this market value by the balanced separate accounts beginning units (10.1).

- **Separate Accounts that Invest in Underlying Mutual Funds and/or Separate Accounts:** Each business day, Principal Life receives the ending price from the NSCC for mutual funds that are the sole investment or held as one of many underlying investments of a separate account (10.3). To calculate the market value of the underlying assets in each separate account, the price of the mutual fund held is multiplied by the number of mutual fund shares owned and the price of the underlying separate account held is multiplied by the number of separate account units owned, if applicable.

The number of shares owned in the underlying mutual fund(s) reflects all contributions and disbursements traded through the end of the prior day to reach the value of the shares held by the separate account. In addition, if a mutual fund declares a periodic dividend, the dividend is
included in the assets of the separate account on the ex-dividend date by multiplying the dividend factor by the shares held. If the underlying mutual fund is a daily accrual fund, the prior day’s daily dividend factor is multiplied by the shares held and included in the net assets of the separate account as an accrual. Any difference is trued-up at the point in time which the fund family credits shares to the account for both periodic and daily dividend by comparing to the information received through the PSI trade platform. The system uses this market value to calculate the change in assets. This change is used to adjust the beginning market value of each rate level to the current day market value.

The number of units owned in the underlying separate account reflects all contributions and disbursements processed through the end of the prior day. This is used by State Street – Kansas City as part of the market value and the IPP calculation for valuing the Separate Accounts with Multiple Securities.

Next, the system calculates and deducts the appropriate expenses from the current day market value for each rate level. The system then calculates a unit value for each rate level by dividing the assets adjusted for market performance and expenses by the beginning units (10.1).

On days the markets are not open, the previous open market date’s unit value is carried forward without any changes.

**Separate Account Unit Value Pricing Checks:** On a daily basis, various automated and manual separate account unit value pricing checks are performed to help ensure the accuracy of the unit values calculated by the Recordkeeping and Accounting system and the integrity of the underlying data. Any discrepancies identified by the checks are immediately investigated and resolved. The results of these checks and resolution of any exceptions are summarized in a pricing review packet which is reviewed and approved by a senior member of the Pricing Team (10.4).

**Retroactive Gains/Losses:** Principal Life has a policy of recording financial transactions on the date the request is in good order. Good order means that Principal Life has all of the necessary information to process the transaction. Regardless of when the financial transaction is processed, the good order date is used as the effective date for the transaction. Accordingly, Principal Life may retroactively record the transaction in the appropriate separate accounts.

When such an event occurs, the transaction is recorded in the separate account effective as of the good order date using the unit value for that separate account on that date. The new units purchased or sold are purchased or sold respectively at the rate in effect on the retroactive date (11.1). If there was market fluctuation in the separate account, the financial transaction did share in that gain or loss. So the loss on any retroactive financial transaction does not affect the net asset value of the separate account, an expense is generated from Principal Life to the separate account. For each separate account, the value of the retroactive asset/liability, retroactive gain/loss, and related asset transfer, if necessary, is balanced daily to help ensure each investment reflects an accurate current value. RIS-Finance performs a monthly balancing of each investment that reconciles the retroactive gain/loss between the Recordkeeping and Accounting system and a detail of transactions report to help ensure that any positive or negative effect on the investment is appropriately offset (11.2).
Non-Proprietary Asset Management

As noted previously, non-proprietary investments are owned by entities outside of Principal Life such as mutual funds, collective investment trust funds or employer securities.

Purchases and Sales

Contributions and disbursements result in purchases and sales, respectively, of non-proprietary assets. The plan sponsor and/or plan participants may also initiate transfers between the above-mentioned non-proprietary assets and proprietary assets. The procedures for recording non-proprietary, electronically linked asset investment activity are noted below.

Non-Proprietary Asset Purchases: Plan sponsors and/or plan participants authorize the purchase of non-proprietary assets by their contributions and their related investment direction instructions. The same system for both proprietary and non-proprietary assets is used to establish or change a plan participant’s investment direction. The procedures followed are outlined in the Participant Recordkeeping and Reporting section. Similarly, the procedures over the recording of a plan participant contribution are the same for proprietary and non-proprietary assets. See the Asset Recording section for further discussion of the related systems. The Recordkeeping and Accounting system automatically allocates the plan and/or participant receipts between the selected investment options based upon the investment direction percentages recorded in either the plan or participant’s record (12.1).

Non-Proprietary Asset Sale Initiation: The sale of a non-proprietary asset is initiated by the plan participant or plan sponsor. The plan participant and/or plan sponsor must perform the same procedures to request a disbursement as those outlined in the Disbursements section.

Non-Proprietary Asset Trades Processing: For each plan transaction, Express summarizes the dollar or share amount, as applicable, to be invested in or liquidated from each non-proprietary asset account.

For mutual funds and collective investment trust funds, including the Principal Trust Company Collective Investment Trust Funds and the Principal Stable Value Fund, the summarized dollar amount is automatically passed as a pending order to the Trade Register system. After the Net Asset Values (NAVs) are retrieved from the NSCC, the Trade Register system writes the trade into an electronic trade file that is automatically sent each open market night to PSI trade platform (12.2) where the trades are summarized by one buy/purchase for each plan or an omnibus trading account held in the investment and submitted to the NSCC.

For publicly-traded employer securities, the summarized dollars and/or shares are written in an electronic trade file that is sent, via a dedicated line, up to four times a day to the Bankers Trust trade platform. The Bankers Trust trade platform submits a file to LEK, Raymond James or Fidelity (if it’s settled in a foreign market) where the trades are executed on the open market.

In addition, each trade platform sends back to Principal Life a file that confirms the receipt of its applicable trades. For electronically linked mutual and collective investment trust funds, PSI sends this file the following business day. For publicly-traded employer securities, this file is sent twice
daily for share-based trades and twice daily for dollar-based trades on the day the trade is placed on the open market. These items are loaded to the Trade Register, at which time the status of each of the trades is changed to “confirmed”.

**Wire Transfer Processing:** For purchases, wire transfers are submitted to the applicable trade platform for the total of all purchases. The procedures to process and approve the release of the funds for the wire transfer are the same as the benefit payment procedures. See the *Disbursements* section for further discussion. The trade platform alerts Principal Life to any discrepancies between the amount of the trade file and the amount of the wire transfer or settlement received. Any discrepancies are investigated and corrected by RIS-Finance (12.3).

For sales, wire transfers are received from the applicable trade platform for the total dollar amount of the redemptions. The transfer is generally received within three business days, depending on the fund partner, of the trade. In addition, as the assets are received, the trade platforms remit settlement files to Principal Life that are automatically loaded to the Trade Register changing the status of each redemption to settle. Each file is compared to the amount of the applicable wire transfer, and any discrepancies are investigated and resolved by RIS-Finance (12.3).

**Non-Proprietary Asset Balancing:** For electronically linked mutual and collective investment trust fund trades, purchases and sales are confirmed and settled the next business day. For publicly-traded employer securities, purchases and sales are confirmed the day the trade is placed on the open market; however, settlement occurs on the next business day following the trade for purchases and within three days of the trade for sales.

Each trade platform at PSI transmits a position file daily that is used to electronically balance to the position on the Recordkeeping and Accounting system of Principal Life. Daily, RIS-Finance receives files that compare the trade platforms’ to the Principal Life positions and resolves any discrepancies that exceed the tolerance allowed. Monthly, RIS-Finance management reviews the results of the daily position balancing to evaluate all remaining differences for financial impact and to verify each is documented and either has been or is in the process of being resolved (12.3).

For electronically linked mutual funds, collective investment trust funds and publicly-traded employer securities funds, a report is produced daily and summarized monthly that compares plan activity to trade activity. Differences over $10 for electronically linked mutual funds and collective investment trust funds and $1 for publicly-traded employer securities are researched by RIS-Finance. The Recordkeeping and Accounting system automatically creates a corrective transaction for differences below these scopes (12.4).

In addition, a report is produced daily showing all confirmed redemption trade requests that have not been marked as settled within three open market days after the original trade was requested; this report is reviewed daily to determine the cause for any unsettled trades. The RIS-Finance Team researches the exceptions, resolves the issue and takes appropriate action. Monthly, management reviews this Stale Redemption report to help ensure all items have been or are being researched and resolved in a timely manner (12.5).
Income Collection and Asset Valuation

Income collection and valuation for non-proprietary assets is dependent upon the information provided by the non-proprietary asset carrier. The procedures to record the activity reported by the non-proprietary asset carrier are described below.

**Income Collection for Non-Proprietary Assets**: Non-proprietary assets may be invested in an investment vehicle that declares dividends or capital gains.

*Mutual Funds and Collective Investment Trust Funds* – An outside vendor, Vertical Management Systems (VMS) sends a file nightly that provides the per share rate of any dividends or capital gains. An Express request is automatically built for those plan sponsors holding a position in the fund(s) received. The dividend or capital gain amount is posted to each participant’s account in the Recordkeeping and Accounting system based upon the number of shares held (13.1).

After the dividend is reinvested, a reconciliation report is generated showing the total allocated in Recordkeeping compared to the allocation by PSI. Based upon that comparison, RIS-Finance updates their position on Accounting (13.2). Then, based on the amount of change that has to be made in Accounting, additional work may be required. If the difference is less than $50, the system initiates a buy or sell transaction at the fund house to true up the difference. If the difference is greater than $50, RIS-Finance researches the difference and determines the appropriate action needed to be taken to true up the difference.

*Employer Securities* – Bankers Trust sends an electronic file nightly that includes cash dividends. An Express request is automatically built and the dividend amount is posted to participant accounts based upon the number of shares in the plan participant’s Recordkeeping account (13.1). A reconciliation between Bankers Trust and Principal Life’s positions is prepared daily by RIS-Finance (13.2).

§404(k) Dividend – Participants receiving ESOP/KSOP §404(k) dividends will have their returns automatically re-invested by the system into the employer security account (13.3) unless they specifically elect otherwise via the Secure Participant Website. If the participant has elected to receive it in cash, the system auto-builds and processes an Express request. See the Asset Recording (IRC §404(k) Dividend Disbursement) section for further details.

**Asset Valuation for Non-Proprietary Assets**: Non-proprietary assets have a readily determined market value that is obtained daily by Principal Life.

*Mutual Funds and Collective Investment Trust Funds* – Net Asset Value (NAV) files, including end-of-day prices, are received each open market day from the NSCC. The Recordkeeping and Accounting system then extracts the NAVs related to CUSIP number offered on the Principal Life platform and posts the appropriate prices. These prices are then used to value the underlying plan participant accounts (14.1). The NAVs are then passed on to PSI who inputs the values in their system.

*Employer Securities* – Principal Life manually maintains a listing of publicly traded investments for which values are needed. Each evening, the listing automatically goes to Yahoo! Finance to...
retrieve closing prices for those specific investments. The prices are then loaded into the Recordkeeping and Accounting system and used to value the plan participant accounts (14.1).

**Validity of Prices:** Automatic system checks are in place on the validity of the prices, both from the NSCC and Yahoo! Finance. Errors are produced, as applicable, after the upload for errors such as: (1) missing prices, (2) stale prices (i.e., same price two days in a row for greater than 75% of the funds in a fund family), (3) price tolerance (i.e., difference in price is greater than 5%). RIS-Finance researches all errors produced nightly. Once the research is complete the prices are adjusted accordingly (14.2).

The following day, PSI performs a comparison between the trades performed by the fund company and the NAV provided by Principal Life. Any discrepancies are reported to Principal Life via a report which Principal Life utilizes to initiate pricing corrections to correct the NAV.
**Monitoring Compliance with DOL, IRS, and ERISA Requirements**

A retirement plan’s qualification for tax-exempt status is dependent upon its continued compliance with Department of Labor (DOL) and Internal Revenue Service (IRS) rules, and the reporting and disclosure requirements of the Employee Retirement Income Security Act of 1974 (ERISA). The plan sponsor is encouraged to obtain a tax determination letter, which indicates that their plan is in compliance with the applicable requirements of the IRC for new or amended plans.

As part of the basic recordkeeping service provided by Principal Life for most DC and DB plans, the plan’s Form 5500 Annual Report is created and various compliance tests are performed to help ensure the plan meets the applicable requirements. Plan sponsors have the option of not engaging Principal Life to perform such reporting and testing services.

**Annual Compliance Package Collection**

Depending on the type of plan and the services required and/or requested, plan sponsors are asked to complete an annual data collection package. Through completion of this package, the plan sponsor verifies data currently retained by Principal Life, as well as provides additional data needed to perform compliance testing procedures. The annual package collection can be submitted to Principal Life through the Secure Plan Sponsor Website or on paper. Compensation can also be electronically uploaded via PERIS.

Plan sponsors who provide the annual package collection electronically through the Secure Plan Sponsor Website are notified by Principal Life as their retirement plan’s year-end approaches to access the Secure Plan Sponsor Website and enter their applicable information. Validation edits alert the plan sponsor to potential conflicting data, and information links assist the plan sponsor with understanding the data requested. Data provided through the Secure Plan Sponsor Website automatically post to the compliance systems (15.1) or, if errors are detected, an Express request is generated for processing by a CSA or Worker.

For those plan sponsors that provide the annual package on paper, a collection package is produced and mailed to the plan sponsor when the retirement plan’s year-end approaches. The plan sponsor completes and/or verifies the data on the forms provided, then returns them for processing. The forms are imaged into an Express request, and the data is processed by a CSA or Worker (15.1). The salary data is then processed through PERIS which generates an Express Request that is forwarded to a CSA or Worker for review.

Monitoring reports and a plan monitoring system are utilized to help ensure the collection of the necessary data from the plan sponsor. Information from the monitoring reports and the plan monitoring system: (1) prompts the CSAs for items outstanding on plans they service and (2) assists management in monitoring the progress of CSAs in obtaining the required documentation.
**Annual Form 5500 Report**

For most plans, information from the Recordkeeping and Accounting system and the plan sponsor’s submitted 5500 Data Collection pull into the applicable field of the web-based Government Reporting Preparation Interface (GRPI) system (16.2). In most circumstances, GRPI automatically generates a Form 5500; for other plans, the Form 5500 is created by a Plan Reporting Specialist, Plan Reporting Analyst, Process Specialist, or Process Associate via the GRPI system. If an error or out-of-balance situation occurs, a worker researches and corrects the issue. Random checking of all manually completed Form 5500s occurs upon completion of the documents by a second worker (16.3). Monitoring reports are provided to the workers periodically from GRPI to help ensure filing and audit deadlines are met for those who have submitted 5500 Data Collection (16.1).

The Form 5500 is delivered to the plan sponsor via the Secure Plan Sponsor Website. Upon receipt of the completed Form 5500, the plan sponsor is responsible for reviewing it for accuracy, adding any needed attachments, submitting their unique username and password, and then submitting the filing electronically to the DOL in a timely manner before their filing deadline. In addition, the Plan Sponsor is responsible for printing the Form 5500 to keep in their records. If the Form 5500 is not accepted upon submission to the DOL, RIS Systems receives an abnormally end (abend) notification. The notice is routed to Government Reporting and Compliance Testing Services to correct the problem and work with the plan sponsor, when necessary, to resubmit the filing to the DOL (16.4).

**Compliance Testing**

Principal Life uses the Recordkeeping and Accounting system to:

- Perform the minimum participation test required by IRC §401(a)(26) and minimum coverage test required by §410(b) on DB plans.

- Identify participants in excess of the IRC §402(g) elective deferral contribution limits. A listing of such participants is monitored and corrective action is taken as needed.

- Calculate the allocation of discretionary employer contributions in accordance with IRC §401(a) profit-sharing allocation requirements.

- Perform IRC §411 vesting determination.

- Identify participants who may meet the requirements for a required minimum distribution according to IRC §401(a)(9) minimum distribution rules. A listing of such participants is monitored and, if a distribution is required, action is taken to process the distribution (15.2).

Principal Life also uses internally-developed compliance systems to produce IRC §416 required top heavy determination at the beginning of each applicable plan year (15.2). Top heavy determination results are delivered to the plan sponsor via the Secure Plan Sponsor Website where the plan sponsor reviews and either approves the determination or requests corrections. If corrections are requested, the changes are processed and a new top heavy determination is
Principal Life uses PFGVal to perform calculations on Other ESOPs to comply with the following requirements:

- §401(a)(4) nondiscrimination testing.
- §404 maximum contribution limits including IRC §404(a)(3) requiring all contributions not to exceed 25% of eligible paid or accrued compensation; and §401(a)(9) applicable to leveraged ESOPs only, requiring contribution for principal payments on ESOPs not to exceed 25% of total compensation for participants eligible for a principal contribution.
- §410(b)(1) minimum coverage test.
- §414(q) highly compensated employee determination.
- §416 top heavy determination.
- §416(i)(l) key employee determination.
- §415(c)(6) one-third rule test.
- §415(c) maximum annual additions test.
- §409(p) Subchapter S Corp Anti-Abuse (15.2).

To facilitate the performance of all other compliance testing for DC plans, Principal Life developed the Compliance Testing Application, which utilizes information from the Recordkeeping and Accounting system and information collected in the annual package collection to perform the various compliance tests. The Compliance Testing Application performs compliance tests required by the following IRC sections:

- §401(k) & §401(m) Non-Discrimination Tests.
- §415 Maximum Annual Additions verification.
- §401(a)(17) Maximum Compensation Limits restrictions.
- §410(b) Coverage Test.

As the compliance tests are processed, the system categorizes the types of compliance testing errors that occur and based upon the type of error, Principal Life has defined follow-up procedures in place (15.2).

As it relates to DB plans, IRC §415 Maximum Benefit Limits is tested, and any corrective action is taken at the time any benefit payments are requested.

Compliance testing results are prepared and delivered to the plan sponsor via the Secure Plan Sponsor Website for their approval. The plan sponsor is responsible for comparing information used for this testing to its records for accuracy and, if errors are noted, notifying Principal Life of the discrepancies on a timely basis, as well as for assessing all required compliance tests are
performed. In addition, the plan sponsor is responsible for the timely review and approval of any refunds needed as a result of a failed compliance test.

Once an authorized administrator has electronically confirmed their approval of any required refunds, Express requests auto build to re-characterize elective deferral contributions as catch-up contributions (if applicable) and/or refund the necessary amounts to the participant. Most requests automatically complete with no manual intervention required. The system calculates gains and/or losses. Refund checks are issued for the remaining refund amount, adjusted for earnings and/or losses.

Plan sponsors electing to allocate discretionary employer contributions to plan participants in accordance with IRC §401(a) profit-sharing allocation requirements select the formula stated in the plan document, which is used to allocate such contributions. The plan sponsor is responsible for determining that the allocation as calculated by Principal Life is in accordance with the formula stated in the plan document and for approving the allocation. Approval from the plan sponsor is required prior to recording the participant allocations in the Recordkeeping and Accounting system (15.2).

IRC §411 Vesting Determination: The vesting schedule and service method which applies to employer funded contributions are defined in the plan document. There are three main vesting determination methods:

100 Percent Immediate

This method is calculated automatically by the Recordkeeping and Accounting system when the participant is first built. See Participant Recordkeeping and Reporting (Participant Additions and Modifications) for further details.

Elapsed Time

This method is calculated automatically by the Recordkeeping and Accounting system. The calculation begins on the participant’s date of employment or service start date and is updated yearly on each participant’s employment (or service) anniversary.

Service Method

This method is based on the number of hours of service during the vesting computation period as defined in the plan document. The plan sponsor provides the number of hours the participants worked during the computation period either with each payroll submission or on a year-to-date basis in the annual compliance data collection process. If the plan sponsor does not provide hours of service for a year, service hours are based on an assumption set by the plan sponsor. For DB plans the assumption is the participant worked the minimum required hours. For DC plans, the plan sponsor chooses the assumption between either 0 hours or the minimum required hours. Plans identified as Total Retirement Suite plans with multiple plans such as an ESOP and a §401(k) plan do not assume hours. In this instance, the plan sponsor must report the participant hours worked.

The vesting percentage of a participant is updated when the participant reaches the minimum required hours or at the end of the computation period (15.2).
Hours are never assumed for the computation period in which the member’s benefit event occurs. These hours must be reported in the Benefit Event Notification process.
Information Technology Controls

The following describes the information systems environment of Principal and the information technology controls surrounding its systems. Information technology controls establish the environment in which all applications are developed and processed. Therefore, the general information systems procedures have an impact on the effectiveness of controls in all applications.

System Development, Maintenance, Documentation and Change/Release Control

To facilitate the development and modification of application systems, Principal utilizes flexible project management and change/release management methodologies that guide development personnel in the design, development, testing, and delivery of development projects. While various methodologies (e.g., Waterfall, Agile, etc.) are used depending on the platform and the nature of the application being developed/maintained, the methodologies contain certain common controls, including: (1) a documented business need to initiate the project, (2) supervisory oversight of the development/maintenance activity, (3) various levels of testing and (4) approval by an authorized person to implement the project into the production environment (17.1). An internally developed workflow and data repository system Production Change Management (PCM) is used for managing, controlling and tracking changes to production systems. In 2015, Principal also began implementation of a new change/release management system that utilizes a vendor solution called Cherwell. Both systems are being utilized during the transition, and are collectively referred to as the “change management systems” within this report.

Mainframe and Distributed Applications: A documented business need to develop a new program or change an existing program must be submitted through completion of predefined request forms (17.2). These requests for program development/maintenance activity must be submitted to the applicable systems and priority committee for initial authorization and prioritization. Authorized requests are entered into an online project tracking system. On a monthly basis, a review board consisting of Information Services and business unit management prioritize these requests and project leads are assigned. Following an initial review of the development request by the assigned project leads, various design documents are prepared as needed with the assistance of the requesting user/departmental support group. Among other things, these design documents define the project’s business requirements.

Upon completion of the design documentation, development tasks are assigned to development teams for coding. Project development takes place under the direction of discipline leaders, who are responsible for the project through its implementation into production. Critical phases of the development cycle include project definition, design, construction, system test, and integration. All development activity is performed in dedicated development environments.

Testing is performed at both the program and system levels to help ensure the correct logic has been employed and system integrity is maintained. All unit testing activity is performed in dedicated test environments. A pilot environment is also in place for use in system testing by the requesting user/departmental support group with the assistance of Information Technology personnel. Formal test plans are developed to direct the system testing effort (17.3).
Following system testing, sign-offs are obtained from the requesting user and/or support group personnel involved in the testing, indicating the changes have been tested and are ready for transfer to production. This approval is automatically captured and enforced through the change management systems. Once the test acceptance approval is received, the change management systems move to the next approval step which is done by the assigned change and release approver(s). Release approvers confirm that all required documents are stored within the change management systems prior to approval (17.4).

Controls integrated into the change management systems: (1) prevent the change owner from also being the change approver and (2) automatically requires multiple levels of approval based on the impact and risk of the project. Change and release approver access is restricted to select personnel. This access is provisioned by business unit contacts per approval by management (17.5).

Documentation: System and program documentation is generated during the various phases of the development/maintenance cycle by the development staff. The extent and adequacy of documentation is the responsibility of the discipline leads. Corporate policy requires the following to be included in each business unit’s program documentation: (1) documented business need, (2) impact analysis, (3) test plan summary and sign-off, (4) migration plan, (5) contingency plan and (6) change and release approvals. This documentation is retained within the change management systems.

Infrastructure: Because of their nature, most requests for changes to infrastructure (e.g., operating systems, utilities, and hardware) originate within an Information Technology shared services area. These changes may result from a vendor upgrade, hardware changes, and major change in system design, etc. Regardless of the nature of the change, the project follows the corporate change management policy. The Information Services Shared Services business unit is responsible for completing most infrastructure changes (17.1 – 17.5).

Change and Release Management: The change and release management processes are designed to: (1) help minimize the risk to the production environment (computing and technology infrastructure) of Principal due to changes, (2) help ensure changes are made to meet specific business needs, and (3) document accountability and responsibility for changes to the environment. To help ensure stability and high availability of the production environment and technology infrastructure of Principal, a formal change management policy is in place (17.1). The corporate policy provides an overarching structure, while allowing each business unit the flexibility to develop specific procedures to manage changes.

As noted previously, Principal utilizes separate development, test, pilot, and production program libraries and relies on CA-Top Secret to control access to production source and object code on the mainframe system. Similarly, separate development, test, pilot, and production environments are used for the distributed applications and management relies on the security features of various access control solutions.

In addition, Principal utilizes a utility that validates the source and object code on the mainframe systems is synchronized during migration through the different environments (17.7). Mainframe transfers from the test environment into pilot (if applicable) and from pilot into production are performed by an automated transfer routine. A semiannual review of all production libraries is
performed to validate that all updates to mainframe production libraries are forced to be made through the automated transfer routine (17.6). While all Information Technology developers have the ability to transfer a program from test to pilot, only certain management and experienced Information Technology personnel including select senior developers (authorized by management) have the ability to transfer code from the pilot environment into production. A semiannual review of this privileged access is coordinated by Information Security and Risk personnel (17.8).

Principal uses mainframe and distributed transfer utilities (e.g., Workbench Transfer Panels, Teamsite, Customer Configuration Tool (CCT), Distributed Deployment Center (DDC), and Dot Net Deployment Tool) to control the movement of mainframe and distributed changes into production. The change control management systems have been integrated with the transfer utilities to provide an extra layer of control, systematically preventing unapproved changes from being moved into production. Nonemergency changes require a valid and approved change record number to be moved through the transfer utilities. In most cases, the transfer utilities prevent a change that has been modified subsequent to the testing approval date from being migrated to production (17.9).

In the event emergency changes are needed to application systems, appropriate Information Technology personnel are contacted to correct the problem. In these cases, authorization procedures are essentially the same as those noted previously; however, they are generally performed after the change is implemented. Certain lead-level developers and above have been granted the authority to transfer programs directly from the test and pilot environment into production (17.10).

Emergency changes are systematically recorded within the change management systems and are logged to a daily report that is reviewed by business unit management. Emergency changes require the change management documentation to be completed within ten business days of the change being made (17.11). Emergency changes that do not have documentation completed and approved within ten business days are subsequently reported to senior management for resolution. The change management systems automatically send escalation e-mails to management when change documentation and approvals have not been obtained for emergency changes (17.11).

To monitor the change process, a representative from each business unit selects a sample of changes quarterly from the transfer history report, which details a history of changes transferred into production, and validates that each change was appropriate, that documentation was retained and that the necessary approvals were obtained. A minimum of 25 changes are validated annually and any discrepancies are reported to management and resolved (17.12).

Physical Access Restrictions

As noted previously, Principal has data centers located in two geographically distant data centers interconnected with owned high speed optic fiber. The production data center is located in Johnston, Iowa with the disaster recovery data center located out of state. Access is restricted to Principal facilities at building entrances and doors of sensitive areas within buildings (e.g., computer rooms) using electromechanical locks controlled by proximity card with additional restrictions (e.g., iris scanners and/or security portals) for sensitive areas. The proximity cards, iris scanners, and security portals (i.e., man traps) are maintained, administered, and controlled by
Global Security personnel. In the event of any security device failure, Global Security has documented mitigation processes in place that can be implemented immediately (18.1).

Proximity cards are issued to all new employees. Additions or deletions to access for all card holders are formally requested through the Physical Access Request System (PARS) by the employee or their leader. Access requested to sensitive areas requires additional authorization from management responsible for each sensitive area. These access requests are approved and forwarded to Global Security via PARS and entered into the proximity card system. To help ensure access remains appropriate, a quarterly review of user access to the data centers and other sensitive areas is coordinated by Global Security with the IT Data Center IT Facilities team (18.2).

Terminated employees are required to return their access cards to their supervisor upon separation. These cards are subsequently forwarded to Global Security for deletion of access rights. Global Security accepts and processes verbal requests from leaders for immediate terminations. To confirm proximity card access is removed upon termination, an interface is installed between the Human Resources system and the proximity card system to automatically disable cards of terminated employees. Global Security manually reviews automated processes on a daily basis to help ensure they ran properly. Manual processes are implemented as needed in the event automated processes do not run properly (18.3).

Logical Access Controls

A formal Enterprise Information Security Program has been established to help ensure the information assets of Principal are protected. The Chief Information Security Officer and an internal dedicated team of security professionals are responsible for the Company’s information security program. This includes establishing policies, standards, and processes to support the security program. The program is reviewed and approved on an annual basis by the Principal Board of Directors. Policies and standards are established throughout Principal information resources to establish requirements for how to configure security components and logical security controls (19.1).

Principal uses a formal documented process to grant or revoke access to Company resources. System access is based on the concept of ‘need access to conduct business’ basis to help ensure that authorized users are granted access commensurate with their defined role(s) and/or responsibilities. Principal utilizes an internally-developed identity management system, called Role and Access Management System (RAMS), which supports separation of duties and facilitates requesting and approving access, as well as automatically routing the request to appropriate personnel for execution, once the request is approved (19.2). RAMS is a web-based application and includes information about functional (job-based) and application (system-based) roles, the organizational hierarchy, and access elements (CA-Top Secret profiles, Active Directory groups, etc.) stored in a relational UDB database.

Formal processes exist that require a leader to submit an access management request when an employee or nonemployee is hired, transfers into a new role or department or terminates their employment. Once a requester completes an on-line access request, the request is routed automatically (1) if appropriate, to an approver for approval (or rejection), (2) to the defined data steward for approval (or rejection), if the request relates to a resource that has been classified as sensitive (19.2), and (3) to Information Security and Risk and in certain cases designated business
unit administrators to provision the request (19.3). In the case of a termination, Information Security and Risk has a process in place to review a daily termination list from Human Resources to confirm a revoke access request has been submitted. If it has not been submitted, they will follow-up with leaders to help ensure the request is submitted so that all access is removed in a timely manner. In the case of a transfer, Principal has implemented an automated process to help ensure access is reviewed and appropriately updated. The IT Governance Risk and Compliance (GRC) tool extracts worker transfer data from the Human Resources system on a daily basis. An automated message directs the leader through the transfer certification process. Follow-up messages occur to help ensure that certification occurs within 30 days. Although extensions are allowed to meet business need, a certification is required when the extension ends (19.4).

In addition, for the LVIndiv distributed application, a periodic access review is performed (19.5).

**Mainframe Environment:** Logical access to programs and data files on the mainframe is controlled by CA-Top Secret. CA-Top Secret has been implemented to restrict unauthorized access to protected resources and to enforce certain user ID and password conventions, including violation thresholds and expiration intervals. CICS and TSO have been interfaced with CA-Top Secret. As a result, initial access to the system and the access rights allowed to a user are determined by their CA-Top Secret security account, which identifies: (1) the permissions that provide access to the transactions a user can execute, (2) the data files a user can access through the use of report writers, and (3) the libraries (program or other) and data files a TSO user can access and the type of access allowed (e.g., read, update, execute). These accounts have been established to prevent developers and other TSO users from making unauthorized modifications to production programs (source or object) and data files, and to limit user department personnel to the transactions and information they require to perform their specific job responsibilities (19.6).

Routine maintenance to CA-Top Secret access rules and the monitoring of departmental access violation activity are performed by members of the Information Security and Risk group with defined scopes of authority. Routine maintenance to CA-Top Secret is based on requests approved through RAMS and is processed through an automated security administration routine (19.7). More sensitive maintenance activity is performed by a separate team of Information Security and Risk staff by manually entering the applicable CA-Top Secret commands (19.7).

A separate centralized team within the Information Security and Risk group is responsible for: (1) technical maintenance to CA-Top Secret, (2) providing training and assistance to the departmental security administrators, (3) performing maintenance to the CA-Top Secret access rules related to sensitive datasets, started tasks, administrator authorities, and the like, which cannot be handled through the automated security administration routine, and (4) monitoring of privileged access and access to sensitive resources.

Information Security and Risk is responsible for conducting various user access appropriateness reviews on a quarterly and/or semiannual basis. These reviews include, but are not limited to: (1) the appropriateness of users defined as CA-Top Secret administrators, (2) the validity of defined CA-Top Secret started tasks, (3) the appropriateness of users defined with the ability to transfer programs into the production environment, (4) the validity of ACIDs not in FAIL mode, and (5) the appropriateness of access to sensitive authorities within TSS Privileges Short (19.8).
**Distributed Systems Environment:** Logical access to and within the distributed application servers is controlled by security parameters within the Windows and Unix operating systems that are restricted to and maintained by Distributed Hosting personnel (19.9). Defined standards have been developed for the security parameters that must be configured on each of the application servers. Server compliance is monitored against these standards and any servers that are out of compliance are reported to the Chief Information Officer (CIO) Working Group on a quarterly basis. The CIO Working Group subsequently follows up with the server administrators to help ensure compliance with defined standards (19.10).

**Internet-Based Systems:** Logical access to and within Express, the Secure Plan Sponsor Website and Secure Participant Website, and for Principal internal users, is controlled by security features within: (1) the application security directory maintained by the Information Security and Risk group, (2) the network operating system maintained by Distributed Hosting personnel, and (3) the underlying mainframe application, which is maintained by the Information Security and Risk group using RAMS and Unix System Services file security (19.6).

To use the Internet-based systems, plan participants or plan sponsors must first establish a secure connection. Plan participants and plan sponsors are required to enter unique username and passwords to access the system. Once the secure connection has been established, the plan participants’ and plan sponsors’ transactions are transmitted to the system. Access to secure website usernames, passwords, and challenge questions and answers is restricted and reviewed for appropriateness on a semiannual basis (19.11).

Other control points within this environment include: (1) authentication and authorization of the user to the internal network before any data is transmitted, (2) restriction and monitoring of requests coming from users through firewall processes, and (3) encryption of all internal and external data transmissions to protect the privacy of the information.

**Computer Operations**

**Mainframe Job Scheduling/Submission:** Computer Associates’ CA-7® Workload Automation (CA-7) is an automated job scheduling/submission system. It is used to schedule, submit, and monitor production batch processing on the mainframe based on predefined processing sequences (20.1). The Balancing and Scheduling Team is responsible for maintaining CA-7 through approved production change management procedures to facilitate routine (e.g., new job submissions) and non-routine (e.g., on-demand reports) requests. Authorization for these requests is performed via programmed controls in conjunction with CA-7 and the change management systems (20.2). Deviations from scheduled processing are monitored by the Balancing and Scheduling Team on a daily basis using reports generated from CA-7. For jobs which abend (abnormally end), a ticket is automatically created in HP Service Manager. The HP Service Manager console is used to track the escalation, contacts, and resolution information for each abended job. The HP Service Manager console is monitored 24/7 and managed based on job class by the Integrated Operations Center (20.3). Access to CA-7 is reviewed by management on a semiannual basis (20.4).

**Distributed Job Scheduling/Submission:** Tivoli Workload Scheduler (TWS) is used to schedule, submit, and monitor production batch processing on the distributed platforms based on predefined processing sequences (20.1). The Balancing and Scheduling Team is responsible for maintaining TWS through approved production change management procedures to facilitate routine (e.g., new
job submissions) and non-routine (e.g., on-demand reports) requests. Authorization for these requests is performed via programmed controls in conjunction with TWS and the change management systems (20.2). Deviations from scheduled processing are monitored by the Balancing and Scheduling Team on a daily basis using reports generated from TWS. For jobs which abend, a ticket is automatically created in OMNIbus. Critical jobs are forwarded to HP Service Manager to be tracked and resolved in a process similar to mainframe abends. The OMNIbus console is used to track the escalation, contacts, and resolution information for each non-critical abended job. The OMNIbus console is monitored 24/7 and managed based on priority code by the Integrated Operations Center (20.3). Access to TWS is reviewed by management on a semiannual basis (20.4).

**Incident Management:** A formal Incident Management process has been established to track, manage, and resolve incidents (e.g., Information Technology outages). This process manages incidents impacting one user or a large number of users. The incidents may impact systems in a variety of ways, including availability, capacity, performance, etc. The primary goal of this process is to minimize the impact on business operations by restoring normal service operations as quickly as possible and identify root cause to minimize re-occurrence. Formal roles are defined to effectively manage each incident. Principal actively monitors for system, processing, and other incidents. When identified, incidents are logged in various tools including HP Service Manager or Cherwell IT Service Manager (ITSM) and personnel monitor open incidents for timely resolution and closure. Incidents are assigned a severity level based upon predefined criteria, and are acted on accordingly (20.5).

**System Backup:** Principal policies require all critical applications and infrastructure to be mirrored and backed up to virtual tape, dedicated block storage, or Network Attached Storage (NAS) at the disaster recovery data center, to provide for: (1) the recovery of processing in the event data is corrupted or lost, (2) compliance with legal, regulatory, and contractual recordkeeping requirements, and (3) the recovery of processing in the event facilities are lost. This requirement is met through electronic vaulting to data center virtual tape libraries or NAS and mirroring of data to systems in the production and disaster recovery data centers.

On a daily basis, all critical program and data files stored on the mainframe and distributed systems are backed up and transmitted electronically over the Company’s dedicated network to virtual tape libraries, dedicated block storage, or NAS at the disaster recovery data center. Operational procedures exist for the Mainframe, Intel, Midrange, Database, Exchange, and SharePoint teams to help ensure backups are established during new system implementations. The software utilized for backups on the mainframe is Aggregate Backup and Recovery Support (ABARS). Distributed servers and databases are backed up using Tivoli Storage Manager or native DBMS utilities. All backup software solutions utilize virtual tape libraries, dedicated block storage, or NAS for storage of the backups. Backup systems are monitored and in the event of a failure, notification is made to the appropriate on-call staff (21.1).
Complementary User Entity Controls

In designing the processes described throughout *Section III – Description of Processing Environment*, Principal Life has considered that certain complementary controls would be implemented by plan sponsors to achieve certain control objectives included in this report. This section details those key plan sponsor responsibilities Principal Life believes each plan sponsor should have in place that were considered when determining Principal Life’s controls reported herein. Each plan sponsor must evaluate its own internal controls to determine if the following Complementary User Entity Controls are in place at their organization.

The following list does not purport to be and is not a complete listing of the controls, which provide a basis for the assertions underlying the financial statements of a plan sponsor.

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<thead>
<tr>
<th>#</th>
<th>Complementary User Entity Control</th>
<th>Related Control Objective(s)</th>
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<tr>
<td>1</td>
<td>The plan sponsor may elect to grant limited access to plan information through the Secure Plan Sponsor Website to users other than the Primary Security Administrator (PSA) (e.g., their external plan auditor, additional plan administrators), which are referred to as Secondary Security Administrators (SSA). If so elected, the PSA is responsible for establishing an account for the SSA, granting access for only those activities necessary to perform their assigned duties, and reviewing the appropriateness of access on a regular basis.</td>
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<td>Control Objective #15</td>
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<td>Control Objective #16</td>
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<td>2</td>
<td>The plan sponsor personnel are responsible for: (1) maintaining the confidentiality of their unique username and password used to restrict access to the Secure Plan Sponsor Website, (2) applying appropriate physical, logical, and system integrity controls over the computers used to access the Secure Plan Sponsor Website, (3) modifying their password as soon as possible if they believe its confidentiality has been breached, and (4) educating plan participants on the importance of the above items in relation to their personal account which are accessible via the Secure Participant Website.</td>
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<td>Control Objective #16</td>
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| 3  | It is the responsibility of the plan sponsor to ensure that individuals performing key roles such as Key Decision Maker, Primary Security Administrator, or Discretionary Trustee have an appropriate level of authority at the company. Responsibilities of those roles include the ability to grant or remove access to the Secure Plan Sponsor Website, request contract or plan amendments, and sign legal documents on behalf of the plan. Examples of legal documents may include, but are not limited to:  
  - contracts with Principal Life  
  - plan agreements between the plan sponsor and its participants  
  - service agreements  
  - certain distribution requests (i.e., Hardship Withdrawals) | Control Objective #1          |
<p>|    |                                                                                                                                                                                                                                  | Control Objective #2          |
|    |                                                                                                                                                                                                                                  | Control Objective #6          |
|    |                                                                                                                                                                                                                                  | Control Objective #7          |
|    |                                                                                                                                                                                                                                  | Control Objective #15         |
|    |                                                                                                                                                                                                                                  | Control Objective #16         |
| 4  | If the plan document is written by a party outside of Principal Life, the plan sponsor is responsible for submitting the plan document and all amendments to Principal Life timely and completely.                                                                  | Control Objective #1          |</p>
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<td>5</td>
<td>The plan sponsor is responsible for submitting the information required to enroll participants in the retirement plan in a timely manner, whether via the Secure Plan Sponsor Website, paper enrollment forms sent to Principal Life or a file uploaded using PERIS.</td>
<td>Control Objective #2</td>
</tr>
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</table>
| 6  | The plan sponsor is responsible for establishing internal procedures to ensure data sent to Principal Life via any method of submission is timely, complete, properly authorized, and in accordance with the signed plan document – including for those participants who terminated in prior years but still have assets held by the plan. This includes:  
  - Participant Data (e.g., salary, dates of hire and termination, service hours, key status, ownership data, death certificate)  
  - Transaction Data (e.g., deposit amounts, allocations by participant, pay period end date)  
  - Form 5500 Data Collection  
  - Compliance Testing Data Collection | Control Objective #1  
Control Objective #2  
Control Objective #6  
Control Objective #7  
Control Objective #15  
Control Objective #16 |
| 7  | The plan sponsor is responsible for monitoring participant contribution totals throughout the year to prevent sending in amounts to Principal Life that exceed the stated IRC §402(g) and §415 Contribution Limits. | Control Objective #15 |
| 8  | The plan sponsor is responsible for establishing internal procedures to ensure that deposits not submitted via the Secure Plan Sponsor Website are properly identified when submitting the deposit to Principal Life. This includes plan/contract number, purpose of the funds (i.e., contribution, expense, etc.), participant-level allocation or plan-level investment allocation and pay period end date. | Control Objective #6 |
| 9  | Following the processing of contribution/loan payments by Principal Life, an acknowledgment of receipt documenting the total amount received by Principal Life and posted to the retirement plan is generated and sent to the plan sponsor, either electronically or in paper format, unless the plan sponsor opts out. The plan sponsor is responsible for comparing this information to its records and notifying Principal Life of any discrepancies on a timely basis. Principal Life recommends that the plan sponsor maintain this record of the contribution and/or loan payment for future reference.  
If the plan sponsor has requested not to receive these acknowledgements, it is the responsibility of the plan sponsor to have some internal control in place to confirm the amount received and posted by Principal Life matches to their records. Any discrepancies should be reported to Principal Life on a timely basis. | Control Objective #6 |
<p>| 10 | For contribution or forfeiture allocations not calculated by Principal Life, the plan sponsor is responsible for ensuring the compensation used is limited to the appropriate maximum level. | Control Objective #15 |
| 11 | The plan sponsor is responsible for reviewing participant distribution requests for in-service withdrawals to verify (1) the information is accurate and complete, and (2) the participant has met the plan’s requirements for a distribution. Approval should be signed on the appropriate line on the request form by an authorized representative of the plan sponsor or trustee and sent to Principal Life. | Control Objective #7 |</p>
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<td>12</td>
<td>For plans that offer loans to its participants, the plan sponsor has the following responsibilities:</td>
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<td>• Reviewing the Loan Document and/or Report provided to them by Principal Life to ensure no plan sponsor action is needed. This may include:</td>
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<td>o Obtaining documentation showing proof a primary residence loan was needed if the loan duration is for longer than 5 years. Documentation should be reviewed and forwarded to the plan’s trustee for safekeeping until the loan is fully paid off, if appropriate. If it does not fit the guidelines specified by the plan document, it is the plan sponsor’s responsibility to notify Principal Life and the participant in a timely manner that approval cannot be given for the loan.</td>
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<td>o Obtaining spousal consent, if required by the signed plan document. Documentation of spousal consent (e.g. signed Loan Documents) may be forwarded to the plan’s trustee for safekeeping until the loan is fully paid off, if appropriate.</td>
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<td>• Setting up payroll deductions for participants in a timely manner.</td>
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<td>• Working with participants to adhere to the stated payment schedule.</td>
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<td>• Reviewing the Loan Monitoring Report and reporting to Principal Life any discrepancies, including participant loans that are deemed to be distributed and made taxable to the participant or loans you had previously been aware of.</td>
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<td>• Review Service Notification Confirmation to determine appropriate loan service has been established.</td>
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<tr>
<td>13</td>
<td>It is the responsibility of the plan sponsor to report benefit events (e.g. termination, retirement, death) to Principal Life in a timely manner. This includes reporting deaths on participants who have formerly terminated employment but kept their assets in the plan, as the beneficiary(s) must be provided with benefit information. In the event a request for distribution is submitted to Principal Life, but no benefit event has yet been reported, it is the responsibility of the plan sponsor to review the requests to determine their validity and submit the benefit event information if necessary.</td>
<td>Control Objective #7</td>
</tr>
<tr>
<td>#</td>
<td>Complementary User Entity Control</td>
<td>Related Control Objective(s)</td>
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</table>
| 14 | The plan sponsor is responsible for reviewing reports provided to them by Principal Life and to confirm the data reflected is accurate and calculations were prepared in accordance with the signed plan document. Any discrepancies should be reported to Principal Life in a timely manner. These reports may include, but are not limited to: All Plans  
  - Allocations  
  - Compliance Tests  
  - Form 5500  
  - Form 5500 Life Count  
  - Plan and Participant Statements  
  - Plan Review  
  - Required Minimum Distribution Letter  
  DB Only  
  - Defined Benefit Calculation Samples  
  - Display of Benefits  
  Other ESOP/KSOP Only  
  - Advice to Trustee  
  - Diversification Election Report  
  - Distribution Eligibility and Election Report (DEER)  
  - Trust Accounting Reports. | Control Objective #1  
  Control Objective #2  
  Control Objective #4  
  Control Objective #5  
  Control Objective #6  
  Control Objective #7  
  Control Objective #15 |
<p>| 15 | The plan sponsor is responsible for ensuring that both active and inactive participants receive statements containing information about their accounts/benefits as required under ERISA. If the participant statements are mailed to the plan sponsor, the plan sponsor is responsible for distributing them to plan participants or beneficiaries on a timely basis. Regardless of whether Principal Life or the plan sponsor mails the statements, if it is returned as undeliverable it is the responsibility of the plan sponsor to locate the participant and deliver the statement to them. | Control Objective #4 |
| 16 | The plan sponsor is responsible for calculating the fair market value for any investments such as the Principal Fixed Interest Option or Principal Fixed Interest Guaranteed Option where the fair value is only used for financial statement purposes. | Control Objective #5 |
| 17 | For a plan sponsor engaging Principal Life to perform its compliance testing and/or a fileable version of its annual Form 5500 government reporting, Compliance Testing and Form 5500 Data Collection is to be submitted (separately) to Principal Life by a specified deadline. If not done, it is the plan sponsor’s responsibility to find another entity to prepare the compliance testing and/or Form 5500 for the plan in order to remain in compliance. | Control Objective #15 |
| 18 | The plan sponsor is responsible for reviewing the completed compliance tests in a timely manner and indicating whether or not they approve or disapprove the results. If they disapprove the results, a conversation must take place with the CSA to determine corrective action so the tests can be re-run. | Control Objective #15 |</p>
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<tr>
<td>19</td>
<td>In the event of a failing compliance test, the plan sponsor is responsible for approving refunds via the Secure Plan Sponsor Website in a timely manner or notifying Principal Life of their decisions regarding plan amendments needed to meet the compliance requirements. The plan sponsor is responsible for implementing plan amendments as needed to meet the compliance requirements and pass the required tests.</td>
<td>Control Objective #15</td>
</tr>
<tr>
<td>20</td>
<td>In the event an Other ESOP plan fails the §415 Limits or ADP/ACP Test, where the related §401(k) plan is held outside of Principal Life, it is the plan sponsor’s responsibility to arrange for necessary refunds to be issued from the related §401(k) plan.</td>
<td>Control Objective #15</td>
</tr>
<tr>
<td>21</td>
<td>The plan sponsor is responsible for obtaining an EFAST2 PIN and Signer ID from the DOL, and using this PIN and Signer ID to file the Form 5500 on their own. The plan sponsor is also responsible for checking the status of their filing to verify whether it was accepted or rejected by the DOL, and initiate a request with Principal Life for a revised or amended filing, if necessary.</td>
<td>Control Objective #16</td>
</tr>
</tbody>
</table>
| 22 | The plan sponsor is responsible for establishing internal controls to safeguard assets not described within the Non-Proprietary Asset Management section of the RIS SOC 1 report including non-linked investments and custom funds built specifically for a single client (which can be either linked or non-linked). | Control Objective #12       
Control Objective #13       
Control Objective #14       |
Section IV – Description of Control Objectives, Controls, Tests and Results of Tests

Overview of Internal Controls

In planning the nature, timing and extent of our testing of the controls specified by Principal Life, the aspects of Principal Life’s control environment, risk assessment processes, information and communication and management monitoring procedures were considered. The procedures for testing included the following:

Control Environment

- Inspected minutes from a sample of Board of Directors’ meetings, noting the Board is active in corporate policy and in providing direction and guidance to senior executives.

- For a sample of members of the Board of Directors, reviewed their career backgrounds to determine their qualifications.

- For members of the Board of Directors and senior management of Principal Life, determined Conflict of Interest statements and Board of Director questionnaires were properly completed.

- Inspected copies of the Principal Code of Business Conduct and Ethics agreement for reasonableness based on Principal Life’s industry.

- Obtained an organization chart and reviewed the organizational structure of Principal Life, including the segregation of functional responsibilities, for appropriateness.

- Inspected Principal Fidelity Bond Coverage for appropriateness.

Risk Assessment Process

- Processes have been established by Principal Life to perform the following on a quarterly basis: (1) identify significant changes in generally accepted accounting principles promulgated by relevant authoritative bodies, (2) notify Corporate Accounting of changes in the entity’s business practices that may affect the method or process of recording transactions, and (3) identify significant changes in internal control or operating environment. For a sample of quarters, determined evaluations regarding the above were properly completed.

Monitoring

- Periodic evaluations of internal controls are performed by process owners to confirm the continued effectiveness of the system of internal control and certify as to their conclusions on a quarterly basis. For a sample of quarters, determined each business unit provided a certification and reviewed the content of the certifications.
• Through inquiry and observation, determined that IARC is actively participating in the controls of Principal Life and communicating the results of their projects to the Audit Committee on a regular basis.

• Reviewed the reports issued by IARC and the actions Principal Life has taken in response to recommendations made to improve controls.

No deviations were noted in the testing.

* * * * *

On the pages that follow, the description of control objectives and the controls to achieve the objectives have been specified by, and are the responsibility of, Principal Life. The testing performed and the results of tests are the responsibility of the service auditor. The internal control environment was considered in planning the nature, timing, and extent of these tests.
Retirement Plan Processing Services

Client Recordkeeping

Control Objective #1: Controls provide reasonable assurance that documents reflecting the plan sponsor’s intent to do business with Principal Life are properly authorized. In addition, controls over plan sponsor recordkeeping provide reasonable assurance that plan sponsor and participant benefit information is accurately and completely input into the plan sponsor and participant records.

<table>
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<tr>
<th>Key Controls Specified by Principal Life</th>
<th>Testing Performed</th>
<th>Results of Testing</th>
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</table>
| **1.1 New Contracts:** RIS Consolidated Document Services or a Transition Manager reviews the contract application for completeness and verifies all required documentation is signed by the plan sponsor (or by the trustee if the contract is to be issued to the trustee). For plan sponsors who do not wish to establish a contract with Principal Life (including ESOPs), a signed service agreement serves as authorization by the plan sponsor or trustee to retain Principal Life for recordkeeping and/or investment services. | For a sample of new DB, DC, and ESOP contracts selected from Express, inspected the following:  
- Each contract application or service agreement documenting the applications for new contracts and/or services was properly authorized as defined by the plan.  
- The queries used to generate the listings from Express included the appropriate date selection criteria and record types for new contracts. | No deviations noted. |
| **1.2 Contract Amendments:** Upon receipt of contract amendment, a Worker verifies the amendment is signed by an authorized representative of the plan sponsor (or trustee, if the contract is to be issued to the trustee). If acceptable, the contract amendment is forwarded to a Registrar for signature. Once signed, RIS Consolidated Document Services executes the amendment and copies of the signed amendment are delivered to the plan sponsor or trustee, as applicable. | For a sample of amended DB and DC contracts selected from Express, inspected the following:  
- Each contract amendment was properly authorized by an appropriate contract holder and the Registrar, as applicable.  
- The queries used to generate the listings from Express included the appropriate date selection criteria and record types for amended contracts. | No deviations noted. |
| **1.3 Contract Amendments:** Contract amendments may also be electronically approved through the Secure Plan Sponsor Website by an authorized representative of the plan sponsor or trustee after the representative re-enters his/her Secure Plan Sponsor Website password as evidence of their electronic signature. | Using integrated test facilities, submitted test transactions and inspected evidence of the functioning of the Secure Plan Sponsor Website to require re-entry of the password. | No deviations noted. |
Retirement Plan Processing Services (continued)

Client Recordkeeping (continued)

**Control Objective #1:** Controls provide reasonable assurance that documents reflecting the plan sponsor’s intent to do business with Principal Life are properly authorized. In addition, controls over plan sponsor recordkeeping provide reasonable assurance that plan sponsor and participant benefit information is accurately and completely input into the plan sponsor and participant records. (continued)

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| 1.4 | **Quality Review of Client Records:** For new DC plans, a quality review of the plan records is performed to verify that plan data was input correctly into the system and the allocation was processed accurately. 
For new Other ESOPs, a quality review of the PFGVal plan provisions and transition information from previous plans, if applicable, is performed to determine that the provisions are entered accurately. 
For new DB plans, a second Client Implementation Manager reviews the investment option coding for accuracy. | For a sample of new DB, DC, and Other ESOP contracts selected from Express, inspected the following: 
- The reviewer or checker sign-off evidencing each contract was reviewed for accuracy based on the information submitted. 
- The queries used to generate the listings from Express included the appropriate date selection criteria and record types for new contracts. | No deviations noted. |
| 1.5 | **Quality Review of Client Records:** For new DB plans, sample benefit calculations and a Calculation Policy are prepared and reviewed by the Client Service Team and provided to the plan sponsor to verify Principal Life’s interpretation of the plan provisions for participant benefits is accurate. If the plan sponsor does not return a signed copy of the documents, a letter is distributed to the plan sponsor stating that the benefits will be calculated based on the samples previously provided. | For a sample of new DB plans selected from Express, inspected the following: 
- Each benefit calculation was reviewed and a Calculation Policy was prepared by the Client Service Team and sent to the plan sponsor to verify that the provisions for participant benefits were accurate. 
- The queries used to generate the listings from Express included the appropriate date selection criteria and record types for new DB plans. | No deviations noted. |
Retirement Plan Processing Services (continued)

Client Recordkeeping (continued)

**Control Objective #1**: Controls provide reasonable assurance that documents reflecting the plan sponsor’s intent to do business with Principal Life are properly authorized. In addition, controls over plan sponsor recordkeeping provide reasonable assurance that plan sponsor and participant benefit information is accurately and completely input into the plan sponsor and participant records. (continued)

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| 1.6 Quality Review of Client Amendments: Plan sponsor record modifications generated from contract amendments are processed through Express and are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The Express request is Passed or Failed based upon the results of the review. If Failed, it is returned to the Worker for corrections. | Inspected the data capture and quality review verification procedures noting the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary. Queried and inspected UDB database table output noting the number of contract amendments tagged for quality review by Express met or exceeded the pre-defined percentages based on the Express Request subtype. Inspected the query used to generate the listing noting that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting:  
- Access was appropriate based on current job responsibilities.  
- The query used to generate the listing included the appropriate selection criteria. | No deviations noted. No deviations noted. No deviations noted. |
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant Additions and Modifications

Control Objective #2: Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record.

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| 2.1 **Electronic Participant Additions/Modifications:** To use the Secure Plan Sponsor Website, the PSA (or SSA if access is granted) must connect via a secure Internet connection and enter a unique username, password and employer access code. A login image, phrase, and challenge question are also established on the first login. To use the Secure Participant Website, participants must connect via a secure Internet connection and enter a unique username and password. A login image, phrase, and challenge question are also established on the first login. | Performed data entry procedures and observed the functioning of the authentication security features of the Secure Plan Sponsor Website and the Secure Participant Website including:  
  - Utilization of secure Internet connection using Transport Layer Security (TLS).  
  - Requirement of a unique username.  
  - Requirement of a correct password.  
  - Use of a login image/phrase. | No deviations noted. |
| 2.2 **Electronic Participant Additions/Modifications:** Transaction or record change requests made through the Secure Plan Sponsor Website and/or Secure Participant Website must be confirmed by the requestor prior to submission by checking a box. | Using integrated test facilities, submitted test transactions and observed the functioning of the Secure Plan Sponsor Website and Secure Participant Website to require checking a box prior to processing the transactions. | No deviations noted. |
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

**Control Objective #2:** Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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<tr>
<td>2.3 Electronic Participant Additions/Modifications: Pre-processing edits are in place on the Secure Plan Sponsor and Secure Participant Websites, which compare the data entered against certain plan provisions and perform various reasonableness checks when creating or modifying participant records. Record changes submitted through the secure websites must clear those edits or be fixed by the plan sponsor. Pre-processing edits within PERIS and ERS compare data entered against certain plan provisions and perform various reasonableness checks when creating or modifying participant records. Any errors detected by the edits are reported to the CSA for investigation and resolution.</td>
<td>Using integrated test facilities, submitted test transactions and observed the functioning of PERIS, ERS, the Secure Plan Sponsor Website, and the Secure Participant Website to properly reject data outside permitted values. Using integrated test facilities, submitted test transactions and observed the functioning of PERIS and ERS to generate error reports for certain failed pre-processing edit tests. Determined through inquiry of management and inspection of the review procedures performed by the CSA of the pre-processing error reports that review procedures included follow-up with the affected plan sponsor and generation of an Express request for correction of the issue as needed.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
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Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

**Control Objective #2:** Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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<tr>
<td>2.4</td>
<td>Electronic Participant Additions/Modifications: Once a record change has passed the pre-processing edit checks on the Secure Plan Sponsor Website and/or Secure Participant Website, it either immediately posts to the Recordkeeping and Accounting system or automatically generates an Express request for a Worker to complete manually. On a daily basis, a scheduled job compares the data built into Express with the data captured on the secure websites. Any missing data is sent to the Helpdesk for resolution. Once a record change has passed the pre-processing edit checks on PERIS and ERS, the information is automatically posted to Recordkeeping and Accounting.</td>
<td>Using integrated test facilities, submitted the following data submission transactions observing the functioning of the system to capture all data and automatically generate an Express request: • Manual data entry through the Secure Plan Sponsor Website. • Manual data entry through the Secure Participant Website. • Imported data entry through the Secure Plan Sponsor Website. For a sample edit encountered during processing, inspected the following: • An automated alert was distributed to Helpdesk Support and indicated the type of edit encountered. • An Express ticket was automatically generated and included documented resolution. Inspected system reports of the functionality for a sample Express generated report and through inquiry of management, determined a process is in place to review and resolve the discrepancies on a daily basis.</td>
</tr>
</tbody>
</table>

No deviations noted.
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

Control Objective #2: Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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<td><strong>2.4 (cont.)</strong> Electronic Participant Additions/Modifications: Once a record change has passed the pre-processing edit checks on the Secure Plan Sponsor Website and/or Secure Participant Website, it either immediately posts to the Recordkeeping and Accounting system or automatically generates an Express request for a Worker to complete manually. On a daily basis, a scheduled job compares the data built into Express with the data captured on the secure websites. Any missing data is sent to the Helpdesk for resolution. Once a record change has passed the pre-processing edit checks on PERIS and ERS, the information is automatically posted to Recordkeeping and Accounting. (continued)</td>
<td>Inspected system reports of the processing of plan participant addition and modification transactions noting the functioning of PERIS and ERS to post the transactions to the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| **2.5** Manual Participant Additions/Modifications: All manually entered plan participant records are supported by request forms, which must be signed by the plan participant if the enrollment includes the plan participant’s investment direction elections and/or beneficiary designations. | For a sample of manually entered DC and DB plan participants or modifications selected from Express, inspected the following:  
- Each enrollment or modification was properly authorized by the plan participant.  
- The queries used to generate the listings from Express included the appropriate date selection criteria and record types for manually entered enrollments. | No deviations noted. |
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

Control Objective #2: Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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| 2.6 Manual Participant Additions/Modifications: All manually completed requests are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The request is Passed or Failed based upon the results of the review. If Failed and the request is open, it is returned to the Worker for corrections; otherwise, the checker makes the corrections. | Determined through inquiry of management and observation of the data capture and quality review verification procedures that the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary. Queried and inspected UDB database table output noting the number of manual requests tagged for quality review by Express met or exceeded the pre-defined percentages based on the Express Request subtype. Inspected the query used to generate the listing noting that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting:  
- Access was appropriate based on current job responsibilities.  
- The query used to generate the listing included the appropriate selection criteria. | No deviations noted. No deviations noted. No deviations noted. |
## Retirement Plan Processing Services (continued)

### Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

**Control Objective #2:** Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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<td><strong>2.7</strong> Manual Participant Additions/Modifications: Upon entry and completion of checking by a second Worker, if applicable, Express requests related to participant creations or modifications are automatically posted to the Recordkeeping and Accounting system.</td>
<td>Submitted test transactions and observed the functioning of Express to properly post new or modified DC and DB records automatically to the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td><strong>2.8</strong> Management monitors the Worker Efficiency and Quality Reports on a monthly basis, and action is taken if an employee’s efficiency and quality goals are not being met on a consistent basis.</td>
<td>For a sample of months and Workers, inspected that Worker Efficiency and Quality Reports were generated and management performed follow-up actions if Worker goals were not met. Inspected system reports of the functioning of the Express and IBPM systems to generate a Worker Efficiency and Quality Report based upon the underlying data within the system.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td><strong>2.9</strong> DB Plans: An Anniversary Checklist is completed on all DB plans. A percentage of all participants in the plan are reviewed for eligibility and documented through completion of this Checklist. Based on the experience level of the Worker, a Quality Assurance Review may also be performed by a second Worker.</td>
<td>For a sample of DB contracts selected from a system-generated listing from Express, inspected the following:  - During the annual data collection process, an Anniversary Checklist review for determination of benefits was conducted for selected plans.  - The query used to generate the listing from Express included the appropriate selection criteria for DB plans.</td>
<td>No deviations noted.</td>
</tr>
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</table>
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

**Control Objective #2:** Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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<td><strong>2.10</strong> Other ESOP/KSOP: During the ESOP census upload process, system edits within PFGVal evaluate data imported. Participant records with no errors are automatically added/updated in PFGVal.</td>
<td>For a sample Other ESOP census upload, inspected the client census upload data and resulting exception report and determined the functioning of the PFGVal system to: (1) reject/accept data census data outside/within permitted values and (2) generate an exception report based on the uploaded data.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| **2.11** Other ESOP/KSOP: Following the resolution of all errors and completion of the upload process, a Status Report is created that lists current census data which is quality reviewed and provided to the plan sponsor for final approval. | For a sample of contracts selected from system-generated listings from the PFGVal system of Other ESOP/KSOP plans, inspected the following:  
  - Census data was approved by the plan sponsor and a quality review was performed.  
  - The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP plans. | No deviations noted. |
Participant Recordkeeping and Reporting – Participant Additions and Modifications (continued)

Control Objective #2: Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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<td><strong>2.12</strong> Other ESOP/KSOP: During a pre-defined window of time, diversification options on the Recordkeeping and Accounting system allow an eligible ESOP/KSOP participant to complete the diversification process through the Secure Participant Website.</td>
<td>Using integrated test facilities, submitted test transactions and observed the functioning of the Recordkeeping and Accounting system and Secure Participant Website to calculate the eligibility of the participant based on the plan’s requirements and only present the diversification option to eligible participants on the Secure Participant Website.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| **2.13** Other ESOP/KSOP: At the close of the period allowing Other ESOP/KSOP participants to make a diversification election, CSAs request the Diversification Election Report that shows the participants' election and distribution information. The Diversification Election Report is reviewed by the Quality Review Team for accuracy. | For a sample of contracts selected from system-generated listings from the PFGVal system of Other ESOP/KSOP plans, inspected the following:  
• A Diversification Election Report was generated and reviewed by the Quality Review Team.  
• The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP plans.  
Inspected system reports of the functioning of the PFGVal system to generate a Diversification Election Report based on the underlying data within Express. | No deviations noted. |
Control Objective #2: Controls provide reasonable assurance that the creation of and modification to plan participant records are properly authorized. In addition, controls provide reasonable assurance that the plan participant information is accurately and completely input into the plan participant record. (continued)

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| 2.14 Other ESOP/KSOP: The Diversification Election report is provided to the plan sponsor via the Secure Plan Sponsor Website to review for accuracy. Any discrepancies must be reported to Principal Life prior to submitting funds for payout. | For a sample of contracts selected from system-generated listings from the PFGVal system of Other ESOP/KSOP plans, inspected the following:  
- A Diversification Election Report was posted to the Secure Plan Sponsor Website for the plan sponsor to review.  
- The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP plans.  
Inspected system reports of the functioning of the PFGVal system to generate a Diversification Election Report based on the underlying data within Express. | No deviations noted. |
Control Objective #3: Participant recordkeeping controls provide reasonable assurance that investment return is properly calculated and recorded to the appropriate plan participant account in a timely manner.

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<td>3.1 The plan participant’s share of the investment returns of a separate account is calculated by the Recordkeeping and Accounting system daily using the account’s unit value and the plan participant’s units of participation.</td>
<td>For a sample plan participant, re-performed and inspected system reports of the functioning of the Recordkeeping and Accounting system to calculate the participant’s share of the daily investment returns based on the underlying account unit value and the plan participant’s units of participation.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>3.2 The calculation of interest income from fixed income accounts is calculated by the Recordkeeping and Accounting system daily using the contract’s fixed rate, the transactional activity and the principal and interest accumulation in the account.</td>
<td>For a sample open fixed income account and a sample closed fixed income account, re-performed and inspected system reports of the functioning of the Recordkeeping and Accounting system to perform the daily interest income calculation based on the underlying account fixed rate, the transactional activity and principal and interest accumulation in the account.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>3.3 The investment returns on electronically linked investments are calculated by the Recordkeeping and Accounting system daily using the investment’s share price and the plan participant’s allotted shares. Publicly-traded employer securities are traded multiple times throughout the day while all other electronically linked investments are valued at the end of each day.</td>
<td>For a sample plan participant, re-performed and inspected system reports of the functioning of the Recordkeeping and Accounting system to calculate the daily investment return on a mutual fund, collective investment trust fund, and publicly-traded employer security based on the investments’ daily share prices and the plan participant’s allotted shares.</td>
<td>No deviations noted.</td>
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</table>
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Investment Returns Computation (continued)

Control Objective #3: Participant recordkeeping controls provide reasonable assurance that investment return is properly calculated and recorded to the appropriate plan participant account in a timely manner. (continued)

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<td>3.4 The investment gains in the Custodial Guaranteed Contract accounts are calculated by the Recordkeeping and Accounting system using a daily crediting rate and the participant’s recordkeeping units.</td>
<td>For a sample plan participant, re-performed and inspected system reports of the functioning of the Recordkeeping and Accounting system to calculate the investment gain for a Custodial Guaranteed Contract account based on daily crediting rate and recordkeeping units.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant and Plan Reporting

**Control Objective #4:** Controls provide reasonable assurance that plan-level and participant-level statements are prepared on at least an annual basis, and the information is complete and accurate.

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<td>4.1 On a periodic basis (monthly, quarterly, semiannually, or annually at the option of the plan sponsor) the Recordkeeping and Accounting system automatically summarizes and generates participant-level and plan-level statements for distribution for DC (including some public ESOPs) and certain DB plans. Other ESOP Statements are automatically generated based on the underlying information in PFGVal. Plan-level statements for certain DB plans (i.e., IPG and DA) are quality reviewed by the Dividend Team as part of the annual dividend determination process.</td>
<td>For a sample participant-level statement and a sample plan-level statement, inspected the periodic statement and determined the functioning of the Recordkeeping and Accounting system to accurately summarize participant-level and plan-level account detail. For a sample Other ESOP participant-level statement and a sample Other ESOP plan-level statement, inspected the statement and determined the functioning of PFGVal to accurately summarize participant-level and plan-level account detail. For a sample of IPG and DA DB plans, inspected the following: • The IPG or DA statement approval form was signed indicating the Dividend Team reviewed the plan statement. • The query used to generate the listing from Express included the appropriate date selection criteria and subtypes for IPG and DA DB plans.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant and Plan Reporting (continued)

Control Objective #4: Controls provide reasonable assurance that plan-level and participant-level statements are prepared on at least an annual basis, and the information is complete and accurate. (continued)

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<td>4.2 On a daily and weekly basis, the system automatically compares each Recordkeeping and Accounting transaction processed in nightly cycle. If an out-of-balance situation is detected, the system automatically generates a balancing request within Express. Workers are responsible for identifying and correcting the out-of-balance situation with assistance from a CSA, when necessary.</td>
<td>Using integrated test facilities, submitted a test transaction and observed the processing of a sample out-of-balance situation and determined the functioning of Express to: (1) identify the out-of-balance condition and (2) automatically generate a balancing Express request. For a sample of days and weeks, inspected the following: • Subtype 190101 balancing (daily) and subtype 190104 balancing (weekly) Express requests had a status of “FIN” indicating they were reviewed and completed. • Action had been taken to resolve any out-of-balance conditions.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant and Plan Reporting (continued)

Control Objective #4: Controls provide reasonable assurance that plan-level and participant-level statements are prepared on at least an annual basis, and the information is complete and accurate. (continued)

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<td>4.3 System edits prevent Express requests for plan and participant statements from completing until all transactions for the time frame reflected in the statements have posted.</td>
<td>For a sample statement, inspected system reports of the functioning of Express noting statement requests were not processed until all transactions for the time frame posted due to the out-of-balance scenario.</td>
<td>No deviations noted.</td>
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</table>

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<thead>
<tr>
<th><strong>4.4 Other ESOP/KSOP:</strong></th>
<th>For a sample of contracts selected from system-generated listings from the PFGVal system of Other ESOP/KSOP plans, inspected the following:</th>
<th>No deviations noted.</th>
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<tr>
<td></td>
<td>• The Trust Accounting Statement was quality reviewed.</td>
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<td>• The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP plans.</td>
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Retirement Plan Processing Services (continued)

Participant Recordkeeping and Reporting – Participant and Plan Reporting (continued)

Control Objective #4: Controls provide reasonable assurance that plan-level and participant-level statements are prepared on at least an annual basis, and the information is complete and accurate. (continued)

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| 4.5 Other ESOP/KSOP: For Other ESOP/KSOPs, the Cash Investment Disclosure is generated and quality reviewed prior to mailing to the plan sponsor or participants with the participant statements. | For a sample of contracts selected from system-generated listings from the PFGVal system of Other ESOP/KSOP plans, inspected the following:  
  - The Cash Investment Disclosure was: (1) generated as part of the statement package and (2) quality reviewed by a Client Service Manager with any comments resolved.  
  - The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP plans. | No deviations noted. |
| 4.6 DC Plans: The fixed interest account market values and any related market value adjustments resulting from early withdrawal of funds are computed automatically by the Recordkeeping and Accounting system for FIA, Provider, and PCR-DC Contracts, and generate Fair Market Value Reports and Employer Statements. | For a sample investment contract, recalculated the market value, including any related market value adjustments resulting from early withdrawal of funds, of a sample fixed interest account noting the accurate calculation by the Recordkeeping and Accounting system. | No deviations noted. |
| 4.7 DB Plans: The Recordkeeping and Accounting system calculates the ASC 960 fair values for DB plans based on discounted cash flows to expected maturity, generally representing contract value adjusted to reflect current market interest rates and reflects the fair value on the Plan Level statements. | For a sample DB plan, inspected system reports and screens of the functioning of the Recordkeeping and Accounting system to calculate the fair value for a sample contract based on appropriate fair value factors. | No deviations noted. |
## Retirement Plan Processing Services (continued)

### Participant Recordkeeping and Reporting – Fair Market Value Reporting

**Control Objective #5:** Controls provide reasonable assurance that the process to calculate fair market values of fixed interest investments is performed in accordance with Principal Life’s interpretation of Accounting Standard Codification (ASC) guidance.

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<tr>
<td><strong>5.1 DC Plans:</strong> The fixed interest account market values and any related market value adjustments resulting from early withdrawal of funds are computed automatically by the Recordkeeping and Accounting system for the FIA, Provider and PCRP-DC Contracts and generate Fair Market Value Reports and Employer Statements.</td>
<td>For a sample investment contract, recalculated the market value, including any related market value adjustments resulting from early withdrawal of funds, of a sample fixed interest account, noting the accurate calculation by the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td><strong>5.2 DB Plans:</strong> The Recordkeeping and Accounting system calculates the ASC 960 fair values for DB plans based on discounted cash flows to expected maturity, generally representing contract value adjusted to reflect current market interest rates and reflects the fair value on the Plan Level statements.</td>
<td>For a sample DB plan, inspected system reports and screens of the functioning of the Recordkeeping and Accounting system to calculate the fair value for a sample contract based on appropriate fair value factors.</td>
<td>No deviations noted.</td>
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## Retirement Plan Processing Services (continued)

### Asset Recording

**Control Objective #6:** Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period.

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| 6.1 To use the Secure Plan Sponsor Website, the PSA (or SSA if access is granted) must connect via a secure Internet connection and enter a unique username, password and employer access code. A login image, phrase, and challenge question are also established on the first login. | Performed data entry procedures and observed the functioning of the authentication security features of the Secure Plan Sponsor Website including:  
  **• Utilization of secure Internet connection using TLS.**  
  **• Requirement of a unique username.**  
  **• Requirement of a correct password.**  
  **• Use of a login image/phrase.** | No deviations noted.                                                                                       |
| 6.2 Transaction requests made through the Secure Plan Sponsor Website must be confirmed by the requestor prior to submission by checking a box confirming the transaction. | Using integrated test facilities, submitted test transactions and observed the functioning of the Secure Plan Sponsor Website to require checking a box prior to processing the transactions. | No deviations noted.                                                                                       |
Retirement Plan Processing Services (continued)

Asset Recording (continued)

Control Objective #6: Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<td>Pre-processing edits are in place on the Secure Plan Sponsor Website and PERIS which compares the data entered against certain plan provisions and perform various reasonableness checks when submitting contribution and loan payments. Transactions submitted through the Secure Plan Sponsor Website must clear those edit checks or be fixed by the plan sponsor. Any errors detected by the pre-processing edits in PERIS are reported to the CSA for investigation and resolution.</td>
<td>Using integrated test facilities, performed data entry procedures and observed the functioning of edits to properly reject data outside permitted values (e.g., duplicate entries, plan minimums, plan maximums, invalid contract or participant numbers, alpha or numeric characters) for the following: • Secure Plan Sponsor Website • PERIS Using integrated test facilities, performed invalid data entry procedures and observed the functioning of PERIS to generate an error report for the following failed pre-processing edit tests: • Contribution request for a member who has taken out hardship withdrawals. • Contribution request for a non-member. • Contribution request for a member prior to member’s Planned Entry Date. Through inquiry of management and inspection of the pre-processing error report review procedures for an example report, determined CSAs follow-up with the affected plan sponsor and generate an Express request for correction of any issues as needed.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
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Retirement Plan Processing Services (continued)

Asset Recording (continued)

Control Objective #6: Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<td>6.4 All transactions submitted through the Secure Plan Sponsor Website and PERIS are captured and an Express request is automatically generated. On a daily basis, a scheduled job compares the data built into Express with the data captured on the Secure Plan Sponsor Website. Any missing data is sent to the Helpdesk for resolution.</td>
<td>Using integrated test facilities, submitted the following manual data submission transactions observing the functioning of the system to capture all data and automatically generate an Express request: • Manual data entry through the Secure Plan Sponsor Website. • Manual data entry through PERIS. • Imported data entry through the Secure Plan Sponsor Website. Inspected system reports of the functionality for a sample Express generated report and through inquiry of management, determined a process is in place to review and resolve the discrepancies on a daily basis.</td>
<td>No deviations noted. No deviations noted.</td>
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Retirement Plan Processing Services (continued)

Asset Recording (continued)

**Control Objective #6:** Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<td>6.5 Express automatically allocates the retirement plan receipts between selected investment options based on the investment direction percentages recorded in either the plan or plan participant’s account, dependent upon whether the plan has plan- or participant-directed investments.</td>
<td>Inspected system reports of the processing of a sample DC contribution deposit entered into Express and determined the functioning of the system to properly: (1) allocate the plan participant contributions payment between investment options based on the plan participant’s investment direction and (2) reflect the deposit within the Recordkeeping and Accounting system at the plan participant-level and within the Recordkeeping and Accounting system at the plan-level for the proper amount and period.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td></td>
<td>Inspected system reports of the processing of a DB retirement plan receipt entered into Express and into the Recordkeeping and Accounting system and determined the functioning of the systems to properly allocate the retirement plan receipt between investment options based on the plan’s investment direction.</td>
<td>No deviations noted.</td>
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Retirement Plan Processing Services (continued)

Asset Recording (continued)

Control Objective #6: Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<td>6.6</td>
<td>The Recordkeeping and Accounting system checks the current account balance of participants prior to processing negative contributions. Any negative contribution errors are reviewed by the Worker or CSA, who works with the plan sponsor on a solution.</td>
<td>Submitted a test transaction and observed the functioning of the Recordkeeping and Accounting system to properly generate an error for a negative contribution submitted for a participant who has already terminated employment and been paid out. Through inquiry of management and observation of the review procedures performed by RIS Services of the pre-processing error reports, determined that review procedures included follow-up with the affected plan sponsor and generation of an Express request for correction of the issue as needed.</td>
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No deviations noted.
### Control Objective #6: Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period.

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<td>6.7 All manually completed requests are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The request is Passed or Failed based upon the results of the review. If Failed and the request is open, it is returned to the Worker for corrections; otherwise, the checker makes the corrections.</td>
<td>Determined through inquiry of management and observation of the data capture and quality review verification procedures that the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary. Queried and inspected UDB database table output noting the number of manual requests tagged for quality review by Express met or exceeded the pre-defined percentages based on the Express Request subtype. Inspected the query used to generate the listing noting that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting:  - Access was appropriate based on current job responsibilities.  - The query used to generate the listing included the appropriate selection criteria.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
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Retirement Plan Processing Services (continued)

Asset Recording (continued)

**Control Objective #6:** Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<td>6.8 Management monitors the Worker Efficiency and Quality Reports on a monthly basis, and action is taken if an employee’s efficiency and quality goals are not being met on a consistent basis.</td>
<td>For a sample of months and Workers, inspected that Worker Efficiency and Quality Reports were generated and management performed follow-up actions if Worker goals were not met. Inspected system reports of the functioning of the Express system to generate a Worker Efficiency and Quality Report based upon the underlying data within the system.</td>
<td>No deviations noted.</td>
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<td>6.9 Upon completion of the Express request, participant and plan contributions and loan payments are automatically posted to the Recordkeeping and Accounting system.</td>
<td>Inspected system reports of the functioning of Express to properly post participant and plan contribution and loan payments automatically to the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>6.10 An acknowledgment of receipt is automatically prepared by the Recordkeeping and Accounting system detailing how the funds are processed, and sent to the plan sponsor for review. This acknowledgment documents the total amount received by Principal Life and posted to the retirement plan’s records.</td>
<td>Inspected system reports of the processing of a sample deposit and determined the functioning of the Recordkeeping and Accounting system to automatically generate an acknowledgment of receipt.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
### Asset Recording (continued)

**Control Objective #6**: Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<tr>
<td>6.11 A Technician enters checks and RIS-Finance enters wire and ACH transfers into PMS based on the contract number. On the day following the deposit, RIS-Finance reconciles the amounts deposited to the cash recorded on PMS. Treasury Operations balances batches of RIS-Finance wire transfers to bank advices; any out-of-balance conditions are researched and corrected by RIS-Finance.</td>
<td>Inspected the procedures performed by a Technician to enter checks in PMS based on the contract number. Inspected the procedures performed by RIS-Finance to enter wire and ACH transfers in PMS based on the contract number. Inspected the procedures performed by RIS-Finance to balance the contribution deposits to PMS and resolve any differences identified. For a sample difference found, reviewed procedures performed to resolve. For a sample of days, inspected the cash and wire reconciliation and determined whether it had been performed and reasonable explanations were provided for any differences.</td>
<td>No deviations noted. No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
<tr>
<td>6.12 To help ensure that all monies received by Principal Life are posted to a plan sponsor’s records on a timely basis and that transfers between PMS and the Recordkeeping and Accounting system are for the correct amount and the contract period, the Pension Masterfile aging report is automatically generated on a weekly basis and assistants in Administration review and resolve items reflected on it in a timely manner.</td>
<td>For a sample transaction, inspected system reports of functioning of the systems to generate an aging report based on the underlying PMS contract data and update the report accordingly as aging items are resolved. For a sample of weeks and a sample item per week, inspected the Pension Masterfile aging report and determined whether it was reviewed and items selected during the sample week were resolved.</td>
<td>No deviations noted. No deviations noted.</td>
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Retirement Plan Processing Services (continued)

Asset Recording (continued)

**Control Objective #6:** Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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<td>6.13 When manually entering contributions/loan payments to participant accounts, the total of all participant entries must equal the total plan sponsor deposit amount transferred into Express from PMS before the Worker can continue.</td>
<td>Observed the functioning of the PMS edit that balances the sum of the plan participants’ contributions and loan payments to the deposit.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>6.14 <strong>Other ESOP/KSOP Allocations:</strong> A participant allocation, including the allocation of the release of leveraged loan shares, is prepared by the CSA using PFGVal. Vesting is automatically calculated by PFGVal at the same time.</td>
<td>Inspected system reports of the functioning of PFGVal to automatically calculate a participant’s vested amount.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| 6.15 **Other ESOP/KSOP and Certain Daily Valued, Public ESOP/KSOP Allocations:** The Account Activity Report is prepared showing the detail of the participant allocation and reviewed by a member of the Quality Review Team for accuracy. | For a sample of contracts from system-generated listings from the PFGVal system of Other ESOP/KSOP and certain daily valued, public ESOP/KSOP plans, inspected the following:  
  - The participant allocation was reviewed by a member of the Quality Review Team for accuracy.  
  - The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP and certain daily valued, public ESOP/KSOP plans.  
  Inspected system reports of the functioning of the PFGVal system to generate an Account Activity Report based on the allocation activity within the system. | No deviations noted. |
Retirement Plan Processing Services (continued)

Asset Recording (continued)

Control Objective #6: Controls provide reasonable assurance that retirement plan receipts are authorized and properly applied to the correct plan sponsor record and plan participant’s account, in the correct amount and in the correct period. (continued)

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| 6.16 Other ESOP/KSOP and Certain Daily Valued, Public ESOP/KSOP Allocations: The Account Activity Report is sent to the plan sponsor for review and approval prior to the final ESOP allocation taking place. | For a sample of contracts from system-generated listings from the PFGVal system of Other ESOP/KSOP and certain daily valued, public ESOP/KSOP plans, inspected the following:  
• The Account Activity Report was reviewed and approved by the plan sponsor prior to the allocation.  
• The query used to generate the listings from the PFGVal system included the appropriate date selection criteria and plan criteria for Other ESOP/KSOP and certain daily valued, public ESOP/KSOP plans.  
Inspected system reports of the functioning of the PFGVal system to generate an Account Activity Report based on the allocation activity within the system. | No deviations noted. |
| 6.17 Segregation of functions is maintained between and within the various user departments involved in asset recording. | Inquired of management and inspected the functional responsibility of RIS-Finance, Deposit Center, and Treasury Operations personnel, noting duties of departments that were involved in asset recording were segregated. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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| 7.1 | **Electronic Submissions**: To use the Secure Plan Sponsor Website, the PSA (or SSA if access is granted) must connect via a secure Internet connection and enter a unique username, password and employer access code. A login, image, and phrase challenge question are also established on the first login. To use the Secure Participant Website, participants must connect via a secure Internet connection and enter a unique username and password. A login image, phrase, and challenge question is also established on the first login. | Performed data entry procedures and observed the functioning of the authentication security features of the Secure Plan Sponsor Website and the Secure Participant Website including:  
- Utilization of secure Internet connection using TLS.  
- Requirement of a unique username.  
- Requirement of a correct password.  
- Use of a login image/phrase. | No deviations noted. |
| 7.2 | **Electronic Submissions**: Distributions or record change requests made through the Secure Plan Sponsor Website and/or the Secure Participant Website must be confirmed by the requestor prior to submission by checking a box confirming the transaction. | Using integrated test facilities, submitted test transactions and observed the functioning of the Secure Plan Sponsor Website and Secure Participant Website to require checking a box prior to processing the transactions. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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| 7.3 Manual Submissions: Manually submitted disbursement and loan requests are authorized by the plan participant and in some cases (e.g., in-service disbursements) by the plan sponsor. | For a sample of manually submitted disbursements selected from Express and IBPM, inspected the following:  
- The disbursement request was authorized by the plan participant and, as applicable, plan sponsor.  
- The disbursement was accurately posted to the Recordkeeping and Accounting system.  
- The query used to generate the listing from Express and IBPM included the appropriate date selection criteria and record types for manual disbursements. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td>7.4 Electronic Submissions: Pre-processing edits are in place on the Secure Plan Sponsor Website, Secure Participant Website, IBPM and PERIS which compare data entered against certain plan provisions and performs various reasonableness checks when modifying records or requesting disbursements for participants. Any errors detected by the pre-processing edits in PERIS are reported to the CSA for investigation and resolution.</td>
<td>Using integrated test facilities, performed data entry procedures and observed the functioning of edits to properly reject data outside permitted values (e.g., duplicate entries, plan minimums, plan maximums, invalid contract or participant numbers, alpha or numeric characters) for the following: • Secure Plan Sponsor Website • Secure Participant Website • IBPM • PERIS Using integrated test facilities, performed invalid data entry procedures and observed the functioning of PERIS to generate an error report for the following failed pre-processing edit tests: • Contribution request for a member who has taken out hardship withdrawals. • Contribution request for a non-member. • Contribution request for a member prior to member’s Planned Entry Date.</td>
<td>No deviations noted.</td>
</tr>
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Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td><strong>7.4 (cont.)</strong></td>
<td><strong>Electronic Submissions:</strong> Pre-processing edits are in place on the Secure Plan Sponsor Website, Secure Participant Website, IBPM and PERIS which compare data entered against certain plan provisions and performs various reasonableness checks when modifying records or requesting disbursements for participants. Any errors detected by the pre-processing edits in PERIS are reported to the CSA for investigation and resolution. (continued)</td>
<td>Through inquiry of management and inspection of the pre-processing error report review procedures, determined CSAs follow-up with the affected plan sponsor and generate an Express request for correction of any issues as needed.</td>
</tr>
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Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

### Key Controls Specified by Principal Life

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<tr>
<td>7.5 Electronic Submissions</td>
<td>All transactions submitted through the Secure Plan Sponsor and/or Secure Participant Website are captured and automatically generate an Express or IBPM request. On a daily basis, a scheduled job compares the data built into Express or IBPM with the data captured on the secure websites. Any missing data is sent to the Helpdesk for resolution.</td>
<td>Using integrated test facilities, submitted the following data submission transactions and inspected system reports of the functioning of the system to capture data and automatically generate an Express or IBPM request:  - Manual data entry through the Secure Plan Sponsor Website.  - Manual data entry through the Secure Participant Website.  - Imported data entry through the Secure Plan Sponsor Website. Inspected system reports of the functionality for a sample Express and a sample IBPM generated report and through inquiry of management, determined a process is in place to review and resolve the discrepancies on a daily basis.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>7.6 If an Express or IBPM request encounters errors or omissions, an exception message is produced and the request is routed to the queue and researched and resolved by a Worker.</td>
<td>Inspected system reports of the functioning of the Express and IBPM systems to route sample requests related to errors or omissions to Workers to be researched and resolved.</td>
<td>No deviations noted.</td>
<td></td>
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Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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| 7.7 DB plan disbursement amounts can be manually calculated, partially calculated by LVIndiv, or fully calculated by LVIndiv. All manual calculations are checked by a second Technician for accuracy. If the disbursement amount is partially calculated by the system, a DB Technician verifies the system calculation for accuracy by comparing a hand-calculated benefit to the system calculated value. | For a sample of DB disbursements manually calculated or partially calculated by LVIndiv selected from a system-generated listing from Express, inspected the following:  
- The calculation was checked by a Technician for accuracy.  
- The query used to generate the listing from Express included the appropriate date selection criteria and disbursement subtypes.  
For a sample DB disbursement fully calculated by LVIndiv, reperformed and inspected system reports of the functioning of the system to calculate the DB payment in accordance with benefit formulas. | No deviations noted. |

No deviations noted.
Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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<td>7.8 All disbursement requests require varying levels of approval from the management of RIS-FSA based on a sliding scale, which is automatically enforced.</td>
<td>For a sample disbursement, inspected system reports of the functioning of TAS to require appropriate approvals based on a sliding scale prior to processing a disbursement and only allow approval from individuals with the authority to approve disbursements. Using integrated test facilities, observed the functioning of Express and IBPM to require appropriate approvals based on a sliding scale prior to processing a disbursement and only allow approval from individuals with the authority to approve disbursements. Inspected system-generated listings from Express, IBPM, and TAS of users with the authority to approve disbursements and determined: • For a sample of Express and TAS users, inquired of management and determined that access was appropriate based on current job responsibilities. • For IBPM users, inquired of management and determined that access was appropriate based on current job responsibilities. • The query used to generate the listings included the appropriate selection criteria.</td>
<td>No deviations noted. No deviations noted. Deviations noted; see discussion below.</td>
</tr>
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Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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<td>7.8 (cont.) All disbursement requests require varying levels of approval from the management of RIS-FSA based on a sliding scale, which is automatically enforced. (continued)</td>
<td>In testing a sample of 25 users with disbursement approval authority within Express, three users were noted with unnecessary access. The access of these users was removed and subsequent procedures confirmed that their access had not been used during the examination period. Subsequent to this finding, management conducted a full review of all users with disbursement approval authority within Express, which was completed in September 2016. No IBPM or TAS approval authority deviations were noted. Management Response: Management confirmed that although there was an annual process in place to review the Express disbursement authorization access, an individual user review beyond the profile level was not occurring. Access was immediately removed for the three individuals identified and a system review confirmed their access had not been used during the past 31 months. Management conducted a full review of all users and identified 34 additional individual users who had unnecessary access. Access was immediately removed for the individual users identified and a system review confirmed no record of activity during the examination period. Management has redefined the disbursement authorization access and updated the annual access review process to ensure an individual user review is performed. Management performed a subsequent review in September 2016 and determined access was appropriate for all users.</td>
</tr>
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Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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<tr>
<td>7.9 All manually completed disbursement requests are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The request is Passed or Failed based upon the results of the review. If Failed and the request is open, it is returned to the Worker for corrections; otherwise, the checker makes the corrections.</td>
<td>Determined through inquiry of management and observation of the data capture and quality review verification procedures that the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary. For a sample day and quality reviewer, inspected the daily IBPM manual disbursement quality review selection process and determined that management randomly selected at least 5% of IBPM requests to be subject to the IBPM quality review verification procedures.</td>
<td>No deviations noted.</td>
</tr>
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No deviations noted.
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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| 7.9 (cont.) All manually completed disbursement requests are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The request is Passed or Failed based upon the results of the review. If Failed, it is returned to the Worker for corrections if the request is open, otherwise the checker makes the corrections. (continued) | For a sample of manually submitted disbursements selected from Express and IBPM, inspected the following:  
- If processed within Express, the Express request activity trail included quality reviewer verification, if randomly selected, and corrections, if necessary.  
- If processed within IBPM, the IBPM request was included in the daily population for quality check selections and a quality review checklist was completed and included quality reviewer verification, if randomly selected, and corrections were completed, if necessary.  
- The disbursement was accurately posted to the Recordkeeping and Accounting system based on the disbursement request.  
- The query used to generate the listing from Express and IBPM included the appropriate date selection criteria and record types for manual disbursements. | No deviations noted |
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td>7.9 (cont.) All manually completed disbursement requests are subject to a random quality check. A Worker verifies the accuracy of the process based upon documented checking procedures. The request is Passed or Failed based upon the results of the review. If Failed, it is returned to the Worker for corrections if the request is open, otherwise the checker makes the corrections. (continued)</td>
<td>Queried and inspected UDB database table output noting the number of manually submitted disbursements tagged for quality review by Express met or exceeded the pre-defined percentages based on the Express Request subtype. Obtained the query used to generate the listing noting that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting: • Access was appropriate based on current job responsibilities. • The query used to generate the listing included the appropriate selection criteria.</td>
<td>No deviations noted.</td>
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7.10 Management monitors the Worker Efficiency and Quality Reports on a monthly basis, and action is taken if an employee’s efficiency and quality goals are not being met on a consistent basis.

For a sample of months and Workers, inspected the Worker Efficiency and Quality Reports and determined management performed follow-up actions if Worker goals were not met.

Inspected systems reports of the functioning of the Express and IBPM systems to generate a Worker Efficiency and Quality Report based upon the underlying data within the system.

No deviations noted.
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td>7.11 Upon completion of the request, DC and DB participant and plan disbursements and record changes are automatically posted to the Recordkeeping and Accounting system.</td>
<td>Inspected system reports of the functioning of Express to post disbursement transactions automatically to the plan participant within the Recordkeeping and Accounting system for the following: DC Loan Disbursement, DC Termination Disbursement, DC Hardship Disbursement, DB Manually Calculated Disbursement, DB Automatically Calculated Disbursement</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>7.12 The Recordkeeping and Accounting system generates a pension journal of the transactions entered.</td>
<td>Inspected system reports of the functioning of IBPM to post DC Termination Disbursement transactions automatically to the appropriate plan participant within the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
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Retirement Plan Processing Services (continued)

Disbursements (continued)

**Control Objective #7:** Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td><strong>7.13 Pension Journal Reconciliations:</strong> On a daily basis, RIS-Finance reconciles the pension disbursements in TAS to the pension journal to verify the two systems are in balance.</td>
<td>For a sample of days, re-performed the reconciliation between TAS and the pension journal and inspected sign-off by RIS-Finance confirming systems were in balance.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td><strong>7.14 Tax withholdings are computed automatically by Express and IBPM based on inputs by the Worker, the plan participant (if requested through the Secure Participant Website), and other factors such as distribution type.</strong></td>
<td>For a sample benefit disbursement processed by Express and a sample DC benefit disbursement processed by IBPM, re-performed and inspected system reports of the functioning of Express and IBPM to accurately calculate disbursement and related tax withholding amounts.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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<td>DC SAFO: For DC SAFO disbursements, if the benefit payment request form is not returned within a predefined time frame and/or the payout amount is beneath certain predefined limits, a benefit payment request is automatically built in Express and IBPM, calculated and processed according to SAFO provisions.</td>
<td>For a sample unreturned DC SAFO benefit payment disbursement request and a sample DC SAFO benefit payment disbursement request beneath predefined limits, inspected system reports of the functioning of Express and IBPM to automatically build and process according to predefined contract limits and SAFO provisions established within the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| DB SAFO: As a result of the manual SAFO process for DB plans, each month a list showing participants who are coded as receiving a SAFO letter is provided to the Client Service Assistants to review to verify all DB SAFO distributions have been made appropriately. | For a sample of DB participants coded as receiving a SAFO letter, inspected the following:  
  • The Client Service Assistants reviewed the DB participants coded as receiving a SAFO letter and initiated the SAFO disbursement request within Express for participants beneath predefined limits.  
  • The SAFO disbursement was accurately posted to the Recordkeeping and Accounting system based on the SAFO disbursement request. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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| 7.16 eSignature: To enable the eSignature loan service, an authorized representative of the plan sponsor must sign an eSignature Loan Authorization Form or have the eSignature Loan Service provision in the enhanced service agreement, which is used to enable the system to make this type of loan service available. | For a sample of new and existing DC plans enabled for the eSignature loan service, inspected the following:  
• The eSignature Loan Payout Authorization/Form was signed by an authorized representative or the eSignature Loan Service was included in the enhanced service agreement.  
• The trustee name identified on the Authorization Form (if applicable) agreed to that in the Recordkeeping and Accounting system.  
• The query used to generate the listing from Express included the appropriate date selection criteria and plan criteria for new and existing plans enabled for the eSignature loan service. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements (continued)

**Control Objective #7:** Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance. (continued)

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<td><strong>7.17 eSignature:</strong> Upon requesting an eSignature loan, the applicable loan documents are immediately completed and presented to the plan participant on-line. The plan participant must accept and sign these documents by electronically confirming their request submission for the disbursement to be processed.</td>
<td>Using integrated test facilities, submitted an eSignature loan request transaction and observed the functioning of the Secure Participant Website to require the plan participant to electronically confirm the request before the disbursement processed.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| **7.18 Internal Rollover:** Each day, RIS-Finance receives an automatic notification from the Recordkeeping and Accounting system identifying the total amount of rollover transfers to Principal Funds and/or Principal Bank generated from the processing of participant disbursements. RIS-Finance reconciles the transfer amount between the Recordkeeping and Accounting system and Principal Funds and/or Principal Bank and immediately researches and resolves any differences. | For a sample of days, inspected the following:  
- Automated notification from the Recordkeeping and Accounting system indicating total amount of rollover transfers.  
- Sign-off by the General Accountant evidencing the reconciliation between the Recordkeeping and Accounting system and Principal Funds and/or Principal Bank.  
- Any discrepancies noted were resolved as necessary. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td><strong>7.19 IRC §404(k) Dividend Distribution</strong></td>
<td>For a sample automated §404(k) dividend disbursement to be paid in cash, inspected system reports of the functioning of the Recordkeeping and Accounting system to generate an Express request based on the Custodian Dividend Confirmation File and post each participant disbursement to the Recordkeeping and Accounting system. Determined through inquiry of management and observation of the data capture and quality review verification procedures that the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary.</td>
<td>No deviations noted.</td>
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No deviations noted.
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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<td><strong>7.19</strong> (cont.) <strong>IRC §404(k) Dividend Distribution:</strong> For those participants who have elected a cash §404(k) dividend payout, an Express request is built and processed automatically.&lt;br&gt; All manually processed Express requests are selected for a Quality Review through the standard Express checking selection function.</td>
<td>Queried and inspected UDB database table output noting the number of manually submitted §404(k) disbursements tagged for quality review by Express met or exceeded the pre-defined percentages based on Express Request subtype. Inspected the query used to generate the listing and determined that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting:&lt;br&gt;  - Access was appropriate based on current job responsibilities.&lt;br&gt;  - The query used to generate the listing included the appropriate selection criteria.</td>
<td>No deviations noted.</td>
</tr>
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## Retirement Plan Processing Services (continued)

### Disbursements (continued)

**Control Objective #7:** Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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| **7.20 Other ESOP/KSOP Benefit eDistribution:** For plans using the eDistribution Service, eligibility for the payout and total amount eligible to be paid is determined by the system based on participant contribution types and investment. This information is reflected on the DEER and compared to PFGVal records to confirm the DEER calculations are correct. These calculations are also reviewed by the Quality Review Team for accuracy. | For a sample of Other ESOP/KSOP plans using the eDistribution Service selected from Express, inspected the following:  
- The DEER was generated and reviewed by the Quality Review Team for accuracy.  
- The query used to generate the listing from Express included the appropriate date selection criteria and record types for Other ESOP/KSOP plans.  
  Inspected system reports of the functioning of the Express system to generate a DEER based on the underlying data within the Recordkeeping and Accounting system. | No deviations noted. |
| **7.21 Other ESOP Distribution:** During a pre-defined window of time, eligible plan participants can make their distribution election through the Secure Participant Website. | Observed the functioning of the Secure Participant Website to only present the distribution option to eligible participants based on the pre-defined contract election window. | No deviations noted. |
| **7.22 Other ESOP Distribution:** Upon submission of a distribution election on the Secure Participant Website, a confirmation letter is automatically generated and sent to the participant. | For a sample Other ESOP eDistribution transaction, inspected system reports of the functioning of the Secure Participant Website to automatically generate a confirmation letter and post the letter to the participant’s message center. | No deviations noted. |
Retirement Plan Processing Services (continued)

Disbursements (continued)

Control Objective #7: Controls provide reasonable assurance that disbursements are: (1) in accordance with plan provisions and related documents, (2) properly authorized by the plan participant or beneficiary and plan sponsor (if applicable), (3) correctly calculated (including the calculation of amounts to be withheld for federal and state taxes), and (4) properly recorded to the correct plan sponsor record and plan participant account in a timely manner, and (5) properly authorized by the management of RIS-FSA prior to issuance.

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| 7.23 Other ESOP/KSOP Distributions: The DEER is provided to the plan sponsor via the Secure Plan Sponsor Website to review for accuracy. Any discrepancies must be reported to Principal Life prior to submitting funds or approval for payout. | For a sample of Other ESOP/KSOP plans using the eDistribution Service selected from Express, inspected the following:  
- The DEER was generated and available for review on the Secure Plan Sponsor Website.  
- The query used to generate the listing from Express included the appropriate date selection criteria and record types for Other ESOP/KSOP plans. | No deviations noted. |
| 7.24 Other ESOP/KSOP Distributions: When the requested funds are received from the trustee, the Express distribution requests are removed from delay status and the distribution is posted to the Recordkeeping and Accounting system. | For a sample of Other ESOP/KSOP distributions selected from Express, inspected the following:  
- The diversification distributions were made and were posted to the Recordkeeping and Accounting system following receipt of funds from the trustee.  
- The query used to generate the listing from Express included the appropriate date selection criteria and record types for Other ESOP/KSOP distributions. | No deviations noted. |
| 7.25 The ability to build a disbursement request, process the request, sign the check and distribute the payment, and perform cash reconciliation procedures are segregated between the Request Examiners, Workers, RIS-Finance and Corporate Accounting. | Inquired of management and observed the functional responsibility of the Request Examiners, Workers, RIS-Finance, and Corporate Accounting personnel, noting segregation of duties. | No deviations noted. |
## Proprietary Asset Management – Fixed Interest Rate Determination for Investment Contracts

**Control Objective #8:** Controls over plan sponsor recordkeeping provide reasonable assurance that fixed interest account rates are authorized and accurately input into the system.

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<td>8.1</td>
<td>The RIS Pricing Committee reviews and approves suggested fixed interest account rate changes for risk, expense and profit deducts on a periodic basis.</td>
<td>For a sample of dates on which a fixed interest account rate change occurred, inspected written approvals obtained from the RIS Pricing Committee to implement the new rate into the Recordkeeping and Accounting system.</td>
</tr>
<tr>
<td>8.2</td>
<td>If interest rate changes are approved, the rates are communicated to the applicable teams for coding of the rates into the Recordkeeping and Accounting system. These rates are further reviewed for completeness and accuracy through peer review.</td>
<td>For a sample of dates on which a fixed interest account rate change occurred, inspected system screens and determined that the new rates entered into the system were peer reviewed by an actuarial associate for completeness and accuracy of the values entered in the Recordkeeping and Accounting system.</td>
</tr>
<tr>
<td>8.3</td>
<td>Cash out factor changes are coded into the Recordkeeping and Accounting system and are further reviewed for completeness and accuracy through peer review.</td>
<td>For a sample of dates on which a cash-out factor change occurred, inspected system screens and determined that the new rates entered into the system were peer reviewed by an actuarial associate for completeness and accuracy of the values entered in the Recordkeeping and Accounting system.</td>
</tr>
</tbody>
</table>
| 8.4                                    | Access to change interest rate and cash out factors is managed through RAMS and restricted to users who require such access based on their job responsibilities.                                                                 | Inspected a system-generated listing from RAMS of users with the ability to change interest rates and cash out factors and determined:  
  - Access was appropriate based on current job responsibilities.  
  - The query used to generate the listing included the appropriate selection criteria. | No deviations noted.               |
**Retirement Plan Processing Services (continued)**

**Proprietary Asset Management – Principal Life’s Pooled Separate Accounts**

**Control Objective #9:** Controls provide reasonable assurance that Principal Life monitors the asset management activities performed by State Street – Kansas City relating to: (1) the recording and monitoring of investment transaction activity, (2) the collection and recording of investment income, and (3) the valuation of the investments underlying certain pooled separate accounts.

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<tr>
<td>9.1 On a monthly basis, RIS-Finance reviews State Street – Kansas City’s report on their asset reconciliations to the custodians to confirm reasonable explanations are provided for material differences.</td>
<td>For a sample of months, inspected the monthly asset reconciliation review and determined whether follow-up was performed to resolve any differences.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>9.2 On a monthly basis, RIS-Finance reviews State Street – Kansas City’s report on the cash reconciliations to the custodians to confirm reasonable explanations are provided for any material differences.</td>
<td>For a sample of months, inspected the cash reconciliation review and determined whether follow-up was performed to resolve any differences.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>9.3 On a daily basis, State Street – Kansas City performs a reconciliation between Principal Life’s corporate general ledger accounts and entries made in State Street – Kansas City’s PAM accounting system for each separate account. RIS-Finance reviews this reconciliation for any differences and determines the appropriate action to correct.</td>
<td>For a sample of days, inspected the Daily General Ledger Reconciliation report noting that differences between Principal Life’s corporate general ledger and State Street – Kansas City’s PAM accounting systems were analyzed and follow-up was performed to resolve any differences.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>9.4 On a monthly basis, RIS-Finance reviews State Street – Kansas City’s report showing their reconciliation of the asset positions to the sub-advisors to confirm there are no unexplainable material differences.</td>
<td>For a sample of months, inspected the monthly custodial cash and position reconciliations review and determined whether follow-up was performed to resolve any differences.</td>
<td>No deviations noted.</td>
</tr>
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</table>
Retirement Plan Processing Services (continued)

Proprietary Asset Management – Principal Life’s Pooled Separate Accounts (continued)

Control Objective #9: Controls provide reasonable assurance that Principal Life monitors the asset management activities performed by State Street – Kansas City relating to: (1) the recording and monitoring of investment transaction activity, (2) the collection and recording of investment income, and (3) the valuation of the investments underlying certain pooled separate accounts (continued).

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<td>9.5 A Stale Pricing Report and a Gross Asset Value report are included in the Monthly Key Indicator report received from State Street – Kansas City on or before the 10th business day of each month. The report is reviewed by RIS-Finance to determine whether appropriate follow-up activities were performed on items noted.</td>
<td>For a sample of months, inspected the Monthly Key Indicator report review and determined whether follow-up was performed to resolve any differences.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| 9.6 Price errors that occur and were resolved during the month are included in State Street-Kansas City’s monthly Key Indicator report, which is provided to and reviewed, evaluated and resolved by the Principal Life Separate Account Valuation Workgroup. | For a sample of months, inspected the Monthly Service report and the Key Indicator report noting the following:  
- Price errors that occurred during the month were appropriately reviewed, evaluated and resolved.  
- Price errors that occurred during the month were included on the Key Indicator report.  
- The Key Indicator report was reviewed and was provided to the Principal Life Separate Account Valuation Workgroup. | No deviations noted. |
**Retirement Plan Processing Services (continued)**

**Proprietary Asset Management – Daily Unit Value Computation**

**Control Objective #10:** Controls provide reasonable assurance that separate account unit values are calculated in accordance with contract terms.

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| 10.1  The Separate Account unit values are computed automatically by the Recordkeeping and Accounting system. | *See discussion of testing procedures applied over contract-level coding in the Client Recordkeeping section.  
See Client Recordkeeping section for applicable results of testing.*  
Inspected system reports of the processing of a sample separate account unit value calculation and determined the accuracy of: (1) the adjustment applied to the beginning separate account balance to reflect the day’s market valuation fluctuations which is based on the market value pricing of the underlying assets, (2) the calculation of expenses charged at the separate account-level based on the underlying daily expense factors negotiated with each plan sponsor and coded into the system through the Client Recordkeeping process, and (3) the computation of the ending unit value.  
For a sample traditional, sample wrapped and sample balanced separate account, inspected the following:  
- The market valuation used by RIS agreed with the valuation provided by State Street – Kansas City.  
- The Recordkeeping and Accounting system automatically performed the ending unit value calculation. | No deviations noted. |

No deviations noted.
## Retirement Plan Processing Services (continued)

### Proprietary Asset Management – Daily Unit Value Computation (continued)

**Control Objective #10:** Controls provide reasonable assurance that separate account unit values are calculated in accordance with contract terms. (continued)

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| 10.2 The Recordkeeping and Accounting system automatically maintains the ongoing units on a contract-by-contract basis, on a rate level basis, and the overall separate account level. | For a sample separate account on a sample day, inspected system reports of the processing of a sample contract noting the following:  
- The Recordkeeping and Accounting system automatically calculates the number of separate account units held by the contract.  
- The units are accurately accumulated by all underlying contracts to the separate account rate level and overall separate account level within the Recordkeeping and Accounting system. | No deviations noted. |
| 10.3 For mutual funds that are the sole investment or held as one of many underlying investments of a Separate Account, the Recordkeeping and Accounting system utilizes the closing NAV provided by the NSCC daily. | For a sample mutual fund that is the sole investment of a Separate Account, inspected system reports of the processing for a sample day and determined the following:  
- The closing NAV feed was provided by the NSCC.  
- The NAV for the fund from the Recordkeeping and Accounting system was accurate in comparison with an external source. | No deviations noted. |
## Retirement Plan Processing Services (continued)

### Proprietary Asset Management – Daily Unit Value Computation (continued)

**Control Objective #10:** Controls provide reasonable assurance that separate account unit values are calculated in accordance with contract terms. (continued)

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| 10.4 Automated and manual separate account unit value pricing checks are performed daily relating to data integrity and unit value accuracy. The results of these checks and investigation of any discrepancies are summarized in a pricing review packet which is reviewed and approved by a senior member of the Pricing Team. | For a sample of days that separate accounts were priced, inspected each day’s pricing review packet and determined that:  
- Pricing checks which include; checking internal controls for differences or exceptions, providing daily updates, and identifying resolving and documenting any control differences, were performed.  
- The pricing packet was approved by a senior member of the Pricing Team.  
- Any discrepancies were resolved. | No deviations noted. |
**Retirement Plan Processing Services (continued)**

**Proprietary Asset Management – Daily Unit Value Computation (continued)**

**Control Objective #11:** Controls provide reasonable assurance that transactions submitted to Principal Life are processed using the date when all information necessary to process the transaction is received and does not negatively impact the applicable investment and its share/unit holders.

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<td><strong>11.1</strong> The Recordkeeping and Accounting system calculates the gain/loss in the value of the investment between the date of good order and the current date and makes the ledger entry to the separate account.</td>
<td>For a sample retroactive gain contribution and a sample retroactive loss contribution processed on a date subsequent to the date received, inspected the Investment Data Report and Recordkeeping “Retro Summary” screen noting the functioning of the Recordkeeping and Accounting system to properly calculate and apply a retroactive gain and loss to the appropriate separate account.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td><strong>11.2</strong> RIS-Finance performs a monthly balancing of each investment that reconciles the retroactive gain/loss between the Recordkeeping and Accounting system and a detail of transactions report to help ensure that any positive or negative effect on the investment is appropriately offset.</td>
<td>Inspected a sample monthly Reconciliation of Retro Accounts report to determine that: (1) monthly balancing was performed by RIS-Finance and any differences were documented, (2) the balancing performed was clerically accurate through tracing transactions from the report back to the Recordkeeping and Accounting system, and (3) transfers were made to offset the effect on the investments. For a sample of months, inspected the monthly Reconciliation of Retro Accounts report noting that monthly balancing was performed by RIS-Finance and any differences were resolved.</td>
<td>No deviations noted.</td>
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## Retirement Plan Processing Services (continued)

### Non-Proprietary Asset Management – Purchases and Sales

**Control Objective #12:** Controls provide reasonable assurance that the purchases and sales of non-proprietary assets are properly executed and the positions are balanced between the Broker/Dealer (PSI) and Principal Life’s accounting records for the plan.

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| 12.1 Express processes the plan participant contribution and benefit payment request information that initiates non-proprietary asset purchase and sale transactions.  
The Recordkeeping and Accounting system automatically allocates the plan and/or participant’s receipts between the selected investments based upon the investment direction percentages recorded in either the plan or participant’s account. | *See discussion of testing procedures applied over the authorization and investment direction calculation of contribution receipts and benefit payments in the Asset Recording and Disbursement sections.*  
*See Asset Recording and Disbursement sections for applicable results of testing.*  
For a sample electronically linked mutual fund and a sample collective investment trust fund non-proprietary contribution receipt and disbursement, inspected system reports of the functioning of Express to properly record the transactions within the Recordkeeping and Accounting system for the amount, account and period.  
For a sample publicly-traded employer security non-proprietary contribution receipt and disbursement, inspected system reports of the functioning of Express to properly record the transactions within the Recordkeeping and Accounting system for the amount, account and period. | No deviations noted.  
No deviations noted. |
Retirement Plan Processing Services (continued)

Non-Proprietary Asset Management – Purchases and Sales (continued)

Control Objective #12: Controls provide reasonable assurance that the purchases and sales of non-proprietary assets are properly executed and the positions are balanced between the Broker/Dealer (PSI) and Principal Life’s accounting records for the plan. (continued)

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<td>12.2 For electronically linked investments (excluding publicly-traded employer securities), the Recordkeeping and Accounting system automatically submits the applicable purchase and sale orders each open market night. For publicly-traded employer securities, the Recordkeeping and Accounting system automatically submits the applicable purchase and sale orders up to four times a day.</td>
<td>For a sample electronically linked mutual fund and a sample collective investment trust fund non-proprietary contribution receipt and disbursement, inspected system reports of the functioning of the Recordkeeping and Accounting system to automatically submit the applicable investment transaction purchase and sales orders to PSI that market night. For a sample publicly-traded employer security contribution receipt and disbursement, inspected system reports of the functioning of the Recordkeeping and Accounting system to automatically submit the applicable investment transaction purchase and sales orders to Bankers Trust timely during that day.</td>
<td>No deviations noted. No deviations noted.</td>
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**Retirement Plan Processing Services (continued)**

**Non-Proprietary Asset Management – Purchases and Sales (continued)**

**Control Objective #12:** Controls provide reasonable assurance that the purchases and sales of non-proprietary assets are properly executed and the positions are balanced between the Broker/Dealer (PSI) and Principal Life’s accounting records for the plan. (continued)

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| 12.3 Daily, RIS-Finance receives files that compare the trade platforms’ and Principal Life’s positions and resolves any discrepancies that exceed the tolerance allowed. Monthly, RIS-Finance management reviews the results of the daily position balancing to evaluate all remaining differences for financial impact and to verify each is documented and either has been or is in the process of being resolved. | Inspected the balancing procedures relating to electronically linked mutual fund and collective investment trust fund non-proprietary asset accounts and determined the following:  
- Functioning of the electronic confirmation process by agreeing the trade request for purchase to the trade register and observing that the trade status was listed as ‘confirmed’.  
- Functioning of the electronic settlement process by agreeing the trade request for the sale to the trade register and observing that the trade status was listed as ‘settled’.  
- Functioning of the electronic balancing process.  
- Procedures were performed to resolve any discrepancies. | No deviations noted. |
Retirement Plan Processing Services (continued)

Non-Proprietary Asset Management – Purchases and Sales (continued)

Control Objective #12: Controls provide reasonable assurance that the purchases and sales of non-proprietary assets are properly executed and the positions are balanced between the Broker/Dealer (PSI.) and Principal Life’s accounting records for the plan. (continued)

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| 12.3 (cont.) Daily, RIS-Finance receives files that compare the trade platforms’ and Principal Life’s positions and resolves any discrepancies that exceed the tolerance allowed. Monthly, RIS-Finance management reviews the results of the daily position balancing to evaluate all remaining differences for financial impact and to verify each is documented and either has been or is in the process of being resolved. (continued) | Inspected the balancing procedures relating to non-proprietary electronically linked employer securities noting the following:  
- Functioning of the electronic confirmation process by agreeing the trade confirmation file sent by Bankers Trust for purchases to the trade register and observing that the trade status was listed as ‘confirmed’.
- Functioning of the electronic settlement process by agreeing the trade confirmation file sent by Bankers Trust for the purchase to the trade register and observing that the trade status was listed as ‘settled’.
- Functioning of the electronic balancing process.
- Procedures were performed to resolve any discrepancies.  
For a sample of months, inspected that an RIS-Finance Manager reviewed the results of the daily position balancing reports. | No deviations noted.

No deviations noted.
Retirement Plan Processing Services (continued)

Non-Proprietary Asset Management – Purchases and Sales (continued)

**Control Objective #12:** Controls provide reasonable assurance that the purchases and sales of non-proprietary assets are properly executed and the positions are balanced between the Broker/Dealer (PSI) and Principal Life’s accounting records for the plan. (continued)

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<tbody>
<tr>
<td>12.4 A Receivable/Payable Outstanding report is generated daily and summarized monthly, and compares plan activity to trade activity. Differences over $10 for electronically linked mutual funds and collective investment trust funds and $1 for publicly-traded employer securities are researched by RIS-Finance. The Recordkeeping and Accounting system automatically creates a corrective trade transaction for differences below these scopes.</td>
<td>Inspected system reports of the functioning of the Recordkeeping and Accounting system to accurately produce the Receivable/Payable Outstanding report for electronically linked mutual funds, collective investment trust funds, and publicly-traded employer securities and inspected evidence of the procedures that RIS-Finance follows during resolution of the report differences. For a sample of months, inspected the monthly Receivable/Payable report for both PSI and Bankers Trust noting all out of balance items were reviewed and resolution was documented.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>12.5 A Stale Redemption report is produced daily showing all confirmed redemption trade requests that have not been marked as settled within three open market days after the original trade was requested. This report is reviewed daily to determine the cause for any unsettled trades. The RIS-Finance Team researches the exceptions, resolves the issues and takes appropriate action. Monthly, management reviews this Stale Redemption Report to help ensure all items have been or are being researched and resolved in a timely manner.</td>
<td>Inspected system reports of the functioning of the Recordkeeping and Accounting system to accurately produce the Stale Redemption report for electronically linked mutual funds, collective investment trust funds and publicly-traded employer securities and inspected evidence of the procedures RIS-Finance follows during resolution of the report differences. For a sample of months, inspected the RIS-Finance Manager review of the status of the Stale Redemption reports for both PSI and Bankers Trust, noting items are being researched and resolved.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Non-Proprietary Asset Management – Income Collection and Asset Valuation

Control Objective #13: Controls provide reasonable assurance that income received from the non-proprietary asset carrier is recorded in the correct amount and plan sponsor record in a timely manner.

<table>
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<tr>
<td>13.1 An Express request is automatically built for those plan sponsors holding a position in the fund(s) received on the dividend and capital gain information communicated to Principal Life on a daily basis from VMS. The dividend or capital gain amount is posted to each participant’s recordkeeping account based upon the number of shares held.</td>
<td>For a sample income receipt for an electronically linked mutual fund and collective investment trust fund, inspected system reports and determined the proper functioning of the systems to: (1) automatically generate an Express request based on the file received from VMS, including per share rate of any dividends or capital gains, (2) post the income receipt to the Recordkeeping and Accounting system for the contract, and (3) accurately allocate the income receipt to a sample plan participant recordkeeping account based on the number of shares held.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>13.2 For electronically linked mutual funds and collective investment trust funds, after trading is complete, a reconciliation report is generated showing the total allocated in Recordkeeping compared to the allocation by PSI, the broker/dealer. Based upon that comparison, RIS-Finance updates their position on Accounting. For publicly-traded employer securities, a reconciliation between Bankers Trust position overall compared to Principal Life’s position is prepared daily by RIS-Finance.</td>
<td>For a sample of days, inspected the daily reconciliation report and noted that the reconciliation was performed by RIS-Finance for electronically linked mutual funds, collective investment trust funds, and publicly traded employer securities and any discrepancies were noted in a true up differences report with share positions appropriately adjusted by RIS within the Recordkeeping and Accounting system.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Non-Proprietary Asset Management – Income Collection and Asset Valuation (continued)

**Control Objective #13:** Controls provide reasonable assurance that income received from the non-proprietary asset carrier is recorded in the correct amount and plan sponsor record in a timely manner. (continued)

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<tr>
<td>13.3 Participants receiving ESOP/KSOP §404(k) dividends will have their returns automatically re-invested by the Recordkeeping and Accounting system into the employer security account unless they specifically elect otherwise via the Secure Participant Website. If the participant has elected to receive it in cash, the system auto-builds and processes an Express request.</td>
<td>Inspected system reports of the processing of an automated §404(k) dividend disbursement paid in cash for a sample participant and determined an Express request was properly generated for posting the disbursement to the Recordkeeping and Accounting system. Inspected system reports of the processing of an automated dividend reinvestment for a sample participant and determined the functioning of the Recordkeeping and Accounting system to properly allocate the dividend to the participant’s employer security account based on the re-investment settings.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Non-Proprietary Asset Management – Income Collection and Asset Valuation (continued)

Control Objective #14: Controls provide reasonable assurance that the market value of non-proprietary assets has been properly recorded.

<table>
<thead>
<tr>
<th>Key Controls Specified by Principal Life</th>
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<tbody>
<tr>
<td>14.1 NAV files, including end-of-day prices, are received for all electronically linked non-proprietary assets from the NSCC for electronically linked mutual and collective investment trust funds and Yahoo! Finance for publicly-traded employer securities and are automatically loaded into the Recordkeeping and Accounting system. These prices are used to automatically value the underlying plan participant accounts.</td>
<td>For a sample electronically linked mutual fund, a sample collective investment trust fund, and a sample publicly-traded employer security, inspected the processing of the NAV and system reports of the functioning of the electronic interfaces to the Recordkeeping and Accounting system and the accurate automated valuation of each sample fund/security.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>14.2 Automatic system checks are in place on validity of the prices. Errors are produced after the upload for items such as: (1) missing prices, (2) stale prices (i.e., same price two days in a row for greater than 75% of the funds in a fund family), or (3) price tolerance inconsistencies (i.e., difference in price is greater than 5%). RIS-Finance researches all errors produced nightly. Once the research is complete the prices are adjusted accordingly.</td>
<td>Inspected system reports of the functioning of the Recordkeeping and Accounting system to produce errors based on the underlying pricing checks for (1) missing prices, (2) stale prices, and (3) price tolerance inconsistencies and for RIS-Finance to make adjustments accordingly.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
## Retirement Plan Processing Services (continued)

### Monitoring Compliance with DOL, IRS, and ERISA Requirements

**Control Objective #15**: Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants.

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<tbody>
<tr>
<td>15.1 Information required to perform compliance testing is received from and approved by the plan sponsor either via a signed hard copy annual collection package or by electronically submitting the information through the Secure Plan Sponsor Website. Data provided through the Secure Plan Sponsor Website automatically post to the compliance systems.</td>
<td>For a sample of plan sponsors, inspected that either a hard copy annual collection package was received and signed by the plan sponsor or compliance information was received through the Secure Plan Sponsor Website. Inspected system reports of the functioning of the interface between the compliance systems and the Secure Plan Sponsor Website to completely capture compliance information submitted by the plan sponsor. <em>See discussion of other testing procedures applied over the Secure Plan Sponsor Website in the Participant Recordkeeping and Reporting section.</em> <em>See Participant Recordkeeping and Reporting section for applicable results of testing.</em></td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

Control Objective #15: Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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| **15.2** Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. | **DC Discrimination/Compensation/Minimum Coverage Testing:**

  Inspected the processing of a sample DC plan’s compliance testing and system reports of the functioning of the systems to apply and accurately calculate §401(k) and §401(m) discrimination tests, §410(b) minimum coverage tests, and §415 contribution limits and discussed Principal Life’s procedures to communicate results of Compliance Testing as necessary.

  Inspected the processing of a sample DC plan’s compliance testing and system reports of the functioning of the system to include qualified plan participants on the §401(k) and §401(m) discrimination tests and §410(b) minimum coverage tests, and exclude ineligible plan participants from these tests.

  For a sample of plan sponsors, inspected the compliance testing, including §401(k) and §401(m) discrimination tests, §410(b) minimum coverage tests, and §415 contribution limits tests, as applicable, and determined the tests were completed. | No deviations noted. | No deviations noted. | No deviations noted. |
Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

Control Objective #15: Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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<td>15.2 (cont.) Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. (continued)</td>
<td>Inspected system reports of the functioning of the systems to: (1) not accept compensation amounts that exceed the §401(a)(17) compensation limits and (2) utilize the §401(a)(17) compensation limit for compliance testing when a plan member’s cumulative compensation exceeds that limit for DC plans. Top Heavy Testing: Inspected the processing of a sample plan sponsor’s top heavy determination and system reports of the functioning of the systems to apply and automatically calculate §416 top-heavy determinations and discussed Principal Life’s procedures to communicate results of Compliance Testing as necessary. Inspected the processing of a sample plan sponsor’s top heavy determination and system reports of the functioning of the systems to include qualified plan participants on the §416 top-heavy determinations and exclude ineligible plan participants from these tests. For a sample of plan sponsors, inspected system reports evidencing that §416 top-heavy determinations were completed.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
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</table>
Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

Control Objective #15: Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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<td>15.2 (cont.) Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. (continued)</td>
<td><strong>Minimum Distribution Testing:</strong> Inspected system reports of the functioning of the systems to identify plan participants who have met the requirements of the §401(a)(9) distribution rules. For a sample of plan participants receiving minimum distribution payments, inspected system reports documenting that the plan participant met §401(a)(9) distribution rules.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>Profit Sharing Allocation Testing: Inspected the processing of a sample plan sponsor’s compliance testing and system reports of the functioning of the systems to calculate the allocation of discretionary employer contributions in accordance with §401(a) profit-sharing allocation requirements and exclude a terminated employee.</td>
<td>No deviations noted.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

**Control Objective #15:** Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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| 15.2 (cont.) Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. (continued) | **Vesting Testing:**
Inspected the processing of a benefit distribution and system reports of the functioning of the systems to: (1) calculate distribution amounts in accordance with the plan’s vesting schedule and (2) roll non-vested balances into a forfeiture account in accordance with §411 vesting forfeiture calculations. | No deviations noted. |
| | **Deferral Limit Testing:**
Inspected evidence of the CSA’s review and corrective action taken on participants identified as exceeding the §402(g) salary deferral limit. For a sample of plan participants, inspected system reports documenting that compliance tests were performed by the systems to identify participants who exceeded the §402(g) salary deferral limit and the CSA reviewed and took action on the participants who were identified as exceeding the limit. | No deviations noted. |
Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

Control Objective #15: Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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<td>15.2 (cont.) Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. (continued)</td>
<td>DB Minimum Participation Testing: Inspected the processing of a sample DB plan’s compliance testing and system reports of the functioning of the systems to apply and automatically calculate §401(a)(26) minimum participation tests and discussed Principal Life’s procedures to communicate results of Compliance Testing as necessary. Inspected the processing of a sample DB plan’s compliance testing and system reports of the functioning of the systems to apply and automatically calculate §410(b) minimum coverage tests and discussed Principal Life’s procedures to communicate results of Compliance Testing as necessary. Inspected the processing of a sample DB plan’s compliance testing and system reports of the functioning of the system to include qualified plan participants and exclude ineligible plan participants on the §410(b) minimum coverage tests.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
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Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

**Control Objective #15:** Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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<tr>
<td>15.2 (cont.) Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. (continued)</td>
<td>ESOP Testing (Various): Inspected the processing of a sample ESOP plan sponsor’s compliance testing and system reports of the functioning of the systems to correctly calculate the compensation ratio for highly compensated and non-highly compensated employees based on §401(a)(4) nondiscrimination limits. Inspected the processing of a sample ESOP plan sponsor’s compliance testing and system reports of the functioning of the systems to correctly calculate: (1) the ratio between contributions and paid and accrued eligible compensation for §404(a)(3) test; (2) the ratio between contributions for principal payments and total compensation for participants eligible for a principal contribution for §401(a)(9) test. Inspected the processing of a sample ESOP plan sponsor’s compliance testing and system reports of the functioning of the systems to correctly calculate the ratio between non-highly compensated employees who benefited and highly compensated employees who benefited according to §410(b)(1) minimum coverage limits.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
</tbody>
</table>
Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

**Control Objective #15:** Controls provide reasonable assurance that compliance procedures in place at Principal Life are performed accurately and support the tax-exempt status of the plan sponsor’s retirement plan and related participants. (continued)

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<td>15.2 (cont.) Certain compliance testing is performed by the Recordkeeping and Accounting system, the Compliance Testing Application or PFGVal, which utilize information from the Recordkeeping and Accounting system and information collected in the annual data collection. (continued)</td>
<td>Inspected the processing of a sample ESOP plan sponsor’s compliance testing and system reports of the functioning of the systems to correctly calculate the ratio between total contributions for highly compensated employees and total contributions for all eligible employees according to §415(c)(6) requirements. Inspected the processing of a sample ESOP plan sponsor’s compliance testing and system reports of the functioning of the systems to correctly calculate participant annual additions per §415 limits. Inspected the processing of a sample ESOP plan sponsor’s compliance testing and system reports of the functioning of the systems to apply and automatically calculate §409(p) S-Corp Anti-Abuse tests and discussed Principal Life’s procedures to communicate results of Compliance Testing as necessary.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
</tbody>
</table>
**Retirement Plan Processing Services (continued)**

**Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)**

**Control Objective #16:** Controls provide reasonable assurance that the Form 5500 is created in accordance with the Principal Life interpretation of Department of Labor instructions for the Schedules.

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<tr>
<td>16.1 Monitoring Reports are provided to the Plan Reporting Specialist/Analyst periodically from GRPI to help ensure filing and audit deadlines are met for those who have submitted 5500 Data Collection.</td>
<td>For a sample week, inspected the availability of the monitoring reports provided to the Plan Reporting Specialist/Analyst. Inspected system reports of the functioning of the GRPI system to generate a Monitoring Report based on the underlying data within the system.</td>
<td>No deviations noted.</td>
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<td>No deviations noted.</td>
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</table>
### Retirement Plan Processing Services (continued)

#### Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

**Control Objective #16:** Controls provide reasonable assurance that the Form 5500 is created in accordance with the Principal Life interpretation of Department of Labor instructions for the Schedules. (continued)

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<td>16.2 For DC and DB plans, information from the Recordkeeping and Accounting system and the plan sponsor’s submitted 5500 Data Collection automatically populates the applicable fields of the GRPI. For ESOP plans, information from the Recordkeeping and Accounting system, PFGVal, and the plan sponsor’s submitted 5500 Data Collection automatically populates the applicable fields of the GRPI. If an error or out-of-balance situation occurs, a 5500 Balancing request builds and is directed to the queue for a Worker to process manually. All manually completed Express balancing DC and DB requests are subject to a random quality check. For ESOP plans, 100% of balancing requests are subject to a quality check.</td>
<td>Inspected the processing of a sample out-of-balance or error situation and system reports of the functioning of GRPI to: (1) identify out-of-balance conditions, and (2) automatically generate a balancing request, which was corrected by a Plan Reporting Specialist/Analyst. Observed the data capture and quality review verification procedures and determined that the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary. Queried and inspected UDB database table output noting the number of Form 5500 requests tagged for quality review by Express met or exceeded the pre-defined percentages based on the Express Request subtype. Inspected the query used to generate the listing noting that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting: - Access was appropriate based on current job responsibilities. - The query used to generate the listing included the appropriate selection criteria.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
</tbody>
</table>
## Retirement Plan Processing Services (continued)

### Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

**Control Objective #16:** Controls provide reasonable assurance that the Form 5500 is created in accordance with the Principal Life interpretation of Department of Labor instructions for the Schedules. (continued)

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<tr>
<td>16.3 Once the plan is in balance, GRPI posts plan data directly to the Form 5500 and accompanying schedules. If an error or out of balance situation occurs, a Form 5500 request builds and is directed to the queue for a Worker to process manually. All manually completed Express Form 5500 DC and DB requests are subject to a random quality check. For ESOP plans, 100% of Form 5500 requests are subject to a quality check.</td>
<td>Inspected system reports of the functioning of the GRPI to automatically generate the Form 5500 accurately. For a sample of plans selected from Express, inspected the Form 5500 reports and determined they were appropriately completed. Inspected the query used to generate the listing noting that the query logic included the appropriate selection criteria for large plans. Inspected system reports of the processing of a sample out-of-balance or error situation and determined the functioning of GRPI to: (1) identify out-of-balance conditions, and (2) automatically generate a Form 5500 request, which was corrected by a Plan Reporting Specialist/Analyst. Inspected the data capture and quality review verification procedures and determined that the accuracy verification quality review includes comparison of the data entry records to source documents and corrections occur as necessary.</td>
<td>No deviations noted. No deviations noted. No deviations noted. No deviations noted.</td>
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</table>
Retirement Plan Processing Services (continued)

Monitoring Compliance with DOL, IRS, and ERISA Requirements (continued)

**Control Objective #16:** Controls provide reasonable assurance that the Form 5500 is created in accordance with the Principal Life interpretation of Department of Labor instructions for the Schedules. (continued)

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| 16.3 (cont.) Once the plan is in balance, GRPI posts plan data directly to the Form 5500 and accompanying schedules. If an error or out of balance situation occurs, a Form 5500 request builds and is directed to the queue for a Worker to process manually. All manually completed Express Form 5500 DC and DB requests are subject to a random quality check. For ESOP plans, 100% of Form 5500 requests are subject to a quality check. (continued) | Queried and inspected UDB database table output noting the number of Form 5500 requests tagged for quality review by Express met or exceeded the pre-defined percentages based on the Express Request subtype. Inspected the query used to generate the listing noting that the query logic included the appropriate selection criteria. Inspected a system-generated listing from UDB and RAMS of users with the ability to change the defined checking frequencies noting:  
  - Access was appropriate based on current job responsibilities.  
  - The query used to generate the listing included the appropriate selection criteria.                                                                 | No deviations noted. |
| 16.4 Upon submission to the DOL, RIS Systems receives an abend notification if the Form 5500 is not accepted. The notice is routed to Compliance Services to correct the problem and work with the plan sponsor to resubmit to the DOL. | Inspected the processing of a sample abend notification and the follow up done to resubmit the Form 5500 to the DOL.                                                                                                   | No deviations noted. |
Information Technology Controls

System Development, Maintenance, Documentation and Change Control

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties.

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<td>17.1 Principal Corporate Change Management policy is used to guide development personnel in the design, testing and implementation of application and infrastructure changes.</td>
<td>Inspected The Principal Corporate Change Management policy noting that it provided guidance related to the design, testing and implementation of application and infrastructure changes.</td>
<td>No deviations noted.</td>
</tr>
</tbody>
</table>
| 17.2 To develop a new program or change an existing program, a documented business need must be submitted through completion of certain predefined request forms and approved by management. | Obtained system-generated listings from the change management systems of change implementations and for a sample of changes, inspected the following:  
- Each change record contained authorization from management to begin development.  
- The queries used to generate the listings from the change management systems included the appropriate date selection criteria and record types for change records. | No deviations noted. |
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties.

(continued)

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| 17.3 System testing is performed against all impacted programs by the requesting user/departmental support group with the assistance of Information Technology personnel. Formal test plans are developed to direct the system testing effort. | Obtained system-generated listings from the change management systems of change implementations and for a sample of changes, inspected the following:  
- Each change record contained evidence of test plan summary and sign-off approval by the requesting user/departmental support group.  
- The queries used to generate the listings from the change management systems included the appropriate date selection criteria and record types for change records. | No deviations noted. |
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties. (continued)

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| 17.4 Following system testing, formal requester/tester sign-off is obtained from the requesting user and/or support group personnel involved in testing to indicate the changes have been tested and are ready for transfer to production. Once the test acceptance approval has been received, the change management systems move to the next approval step which is done by the assigned change and release approver(s). Release approvers confirm that all required documents are stored within the change management systems prior to approval. | Obtained system-generated listings from the change management systems of change implementations and for a sample of changes, inspected the following:  
- Each change record contained evidence of test plan summary and sign-off approval by the requesting user/departmental support group. 
- Each change record was properly approved prior to implementation. 
- The queries used to generate the listings from the change management systems included the appropriate date selection criteria and record types for change records. | No deviations noted. |
System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties.

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<td>17.5 Controls integrated into the change management systems: (1) prevent the change owner from also being the change approver of the change and (2) automatically require multiple levels of approval based on the impact and risk of the project. Change and release approver access is restricted to select personnel. This access is provisioned by business unit contacts per approval by management.</td>
<td>Observed the functioning of the change management systems to assign the required number of approvers for a request based on the risk and impact assigned to the request. Observed the functioning of the change management systems to prevent the change owner from being the approver on the same request. Obtained a system-generated listing from DB2 of the users granted the ability to assign approvers within the change management systems and inspected the following: Each approver had appropriate access based on current job responsibilities. The DB2 query used to generate the listing included the appropriate selection criteria for the change management systems approvers.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
</tr>
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</table>
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties.

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| 17.5 (cont.) Controls integrated into the change management system: (1) prevent the change owner from also being the change approver of the change and (2) automatically require multiple levels of approval based on the impact and risk of the project. Change and release approver access is restricted to select personnel. This access is provisioned by business unit contacts per approval by management. (continued) | Obtained system-generated listings from the change management systems of change implementations and for a sample of changes, inspected the following:  
- Each change record was properly approved prior to implementation.  
- The queries used to generate the listings from the change management systems included the appropriate date selection criteria and record types for change records. | No deviations noted. |

| 17.6 | A semiannual review of all production libraries is performed to validate all updates to mainframe production libraries are forced to be made through the automated transfer routine. | Inspected semiannual review documentation of mainframe libraries noting:  
- The review was completed timely by designated members of management.  
- Any changes resulting from the review had been executed based on the review results.  
- The query for the system-generated listing of mainframe libraries included the appropriate library selection criteria. | No deviations noted. |
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

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<td>17.7 Principal uses a utility to help ensure that source and object code on the mainframe system stay synchronized when migrated through the various development and testing environments.</td>
<td>Observed the functioning of the automated source and object level check within the mainframe environment, and validated that the system does not allow the code to be transferred if a modified object and its source have level numbers that are not synchronized.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td>17.8 Only certain management and experienced Information Technology personnel (including select senior developers) authorized by management, have the ability to transfer code into production. A semiannual review of this privileged access is coordinated by Information Security and Risk personnel.</td>
<td>Observed the functioning of the automated program transfer routines that are used in transferring programs into production, and determined that a user is required to have appropriate access defined through CA-Top Secret in order to initiate and complete a transfer into production.</td>
<td>No deviations noted.</td>
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</table>
**Information Technology Controls (continued)**

**System Development, Maintenance, Documentation and Change Control (continued)**

**Control Objective #17**: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

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| 17.8 (cont.) Only certain management and experienced Information Technology personnel (including select senior developers) authorized by management, have the ability to transfer code into production. A semiannual review of this privileged access is coordinated by Information Security and Risk personnel. (continued) | For a sample semiannual review of the users granted the ability to transfer programs into production, inspected the following:  
  - The review was completed timely by designated members of management.  
  - For a sample of changes resulting from the review, inspected that access had been modified appropriately based on the review results.  
  - The query for the system-generated listing of users from CA-Top Secret included the appropriate selection criteria for users granted the ability to transfer programs into production. | Deviation noted; see below. |
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

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<td>17.8 (cont.)</td>
<td>In testing a sample semiannual review to determine whether user access modifications identified during the review were appropriately applied, 44 instances were identified where reviewers determined that users’ access was no longer required; however, the reviewers failed to submit access requests to have the users’ access revoked. Of the 44 users, the access assigned to: (1) 39 users was subsequently determined to be appropriate based on the users’ other assigned responsibilities and (2) five users’ access was determined to be no longer required. Additional procedures performed determined that: (1) the requested removals of access were subsequently completed and (2) no inappropriate production transfers were executed by the users.</td>
</tr>
<tr>
<td>Only certain management and experienced Information Technology personnel (including select senior developers) authorized by management, have the ability to transfer code into production. A semiannual review of this privileged access is coordinated by Information Security and Risk personnel. (continued)</td>
<td>Management Response: Management determined that revoke requests for 44 instances had not been submitted. This issue resulted from a transition of responsibility and procedures were not clearly defined. Procedures have been updated and communicated to all parties. Management identified one instance where access was used after it was no longer needed; however, the activity was appropriate. Access was revoked for the identified users and a subsequent semi-annual appropriateness review was conducted in May/June 2016 and all identified revoke requests were executed in a timely manner or access was deemed appropriate.</td>
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Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties.

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| 17.9 Mainframe and distributed transfer utilities are used to control the movement of programs into production. Nonemergency changes require an approved change record number to be moved through the transfer utilities. The transfer utilities prevent a change that has been modified after receiving testing approval from being migrated into production. | Observed the functioning of the change control management systems and validated the following:  
• A valid approved change record number was systematically required to be entered into the transfer panels prior to migration.  
• The system did not allow the migration of a change that had been modified subsequent to receiving testing approval. | No deviations noted. |
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

- network infrastructure is configured as authorized to (1) enable applications and application controls to operate effectively, (2) protect data from unauthorized changes, (3) provide for its availability for processing, and (4) support segregation of duties.

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| In the event emergency changes are needed to application systems, certain lead-level developers and above have been granted the authority to transfer programs directly from the test environment into production. | For a sample semiannual review of users granted the ability to transfer programs into production, inspected the following:  
- The review was completed timely by designated members of management.  
- For a sample of changes resulting from the review, inspected that access had been modified appropriately based on the review results.  
- The query for the system-generated listing of users from CA-Top Secret included the appropriate selection criteria for users granted the ability to transfer programs into production.  
Production program libraries on the mainframe system are under the protection of CA-Top Secret. Production program libraries and distributed systems are protected by the security features of its various network operating systems and object-level password security. See further discussion of testing under Logical Access Controls. | Deviation noted; see discussion and management response at control 17.8. See Logical Access Controls section for applicable results of testing. |

Deviation noted; see discussion and management response at control 17.8.
Information Technology Controls (continued)

**System Development, Maintenance, Documentation and Change Control (continued)**

**Control Objective #17:** Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

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| 17.10 (cont.) In the event emergency changes are needed to application systems, certain lead-level developers and above have been granted the authority to transfer programs directly from the test environment into production. (continued) | Obtained system-generated listings from the change management systems of change implementations and for a sample of changes, inspected evidence of the following:  
  • Each change record was properly approved prior to implementation.  
  • The queries used to generate the listings from the change management systems included the appropriate date selection criteria and record types for change records. | No deviations noted. |
| 17.11 Emergency changes are recorded within the change management systems and reported to management. The change management systems automatically send escalation e-mails to management when change documentation and approvals have not been obtained for emergency changes. | Observed the functioning of the change management systems noting:  
  • Escalation e-mails are automatically sent to management when change documentation and approvals have not been obtained.  
  • Emergency changes that were migrated without a change record number are recorded and reported. | No deviations noted. |
Information Technology Controls (continued)

System Development, Maintenance, Documentation and Change Control (continued)

Control Objective #17: Controls provide reasonable assurance that:

- application code and configuration parameter changes are initiated as needed, are authorized, and function in accordance with application specifications to (1) result in valid, complete, accurate, and timely processing and data, (2) provide for the functioning of application controls, and (3) support segregation of duties; and

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| 17.12 To monitor the change process, a representative from each business unit selects a sample of changes quarterly from the transfer history report and validates that: (1) each change was appropriate, (2) documentation was retained and (3) the necessary approvals were obtained. A minimum of 25 changes are validated annually and any discrepancies are reported to management and resolved. | For a sample of quarterly reviews that were performed for each business unit supporting the Retirement Plan Processing Services applications, inspected the following:  
- The reviews were completed timely by designated members of management and covered a minimum of 25 changes annually.  
- Any discrepancies resulting from the review are investigated and resolved by management. | No deviations noted. |
Information Technology Controls (continued)

Physical Access Restrictions

**Control Objective #18:** Controls provide reasonable assurance that physical access to the data centers and other sensitive areas is restricted to authorized and appropriate personnel.

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<td>18.1 Access is restricted to Principal facilities at building entrances and at doors of sensitive areas within buildings (e.g., computer rooms) using electromechanical locks controlled by proximity card, with additional restrictions (e.g., iris scanners and/or security portals) for sensitive areas. In the event of any security device failure, documented mitigation processes are in place.</td>
<td>Toured the facilities and observed access to the data centers and other sensitive areas was secured. Observed the functioning of the proximity card and iris scanners by attempting to gain access to the data centers and other sensitive areas with invalid proximity card / unauthorized personnel noting: • Access was not allowed for invalid proximity card / unauthorized personnel. • Invalid access attempts were appropriately logged, as applicable.</td>
<td>No deviations noted.</td>
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No deviations noted.
Information Technology Controls (continued)

Physical Access Restrictions (continued)

**Control Objective #18:** Controls provide reasonable assurance that physical access to the data centers and other sensitive areas is restricted to authorized and appropriate personnel. (continued)

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| 18.2 A quarterly review of users granted access to the data centers and other sensitive areas is coordinated by Global Security with the IT Data Center IT Facilities Team. | Inspected a sample of quarterly review documentation for users granted access to the data centers and other sensitive areas coordinated by Global Security with the IT Data Center IT Facilities Team noting:  
- The reviews were completed timely by designated members of management.  
- Inspected a sample of changes resulting from the reviews, noting the changes were made in accordance with the review results.  
- The queries used to generate the access listings from the card key system included the appropriate record types for the data centers and sensitive areas. | No deviations noted. |
| 18.3 Physical access rights are removed when a user is terminated. An interface is installed between the Human Resources system and the proximity card system to automatically disable cards of terminated employees. | Inspected system reports of the functioning of the automated routine between the Human Resources system and the proximity card system to disable users’ proximity cards upon termination. | No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

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<td><strong>19.1</strong> Policies and standards are established throughout Principal information resources to establish requirements for how to configure security components and logical security controls.</td>
<td>Inspected security policies and procedures noting they establish requirements for how to configure security components and logical security controls to meet the security objectives of Principal. Inspected the organizational structure and observed the implementation of security noting appropriate segregation of duties between functional groups.</td>
<td>No deviations noted.</td>
</tr>
<tr>
<td><strong>19.2</strong> Principal utilizes RAMS, which supports separation of duties and facilitates the requesting and approving access, as well as automatically routing the request to appropriate personnel for execution, once the request is approved. Certain resources have been identified by the various business units as critical to their business processes. These resources have been deemed sensitive by Principal and require the additional approval of an assigned data steward before the security administrator will grant access to the resources.</td>
<td>Submitted a test transaction and observed the functioning of RAMS to automatically route security requests to an access approver, if appropriate, and to Information Security and Risk for execution. Submitted a test transaction requesting sensitive access and observed the functioning of RAMS to automatically require an approval from a data steward for a resource when sensitive access is requested.</td>
<td>No deviations noted.</td>
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</table>
Information Technology Controls (continued)

Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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| 19.3 Formal processes exist that require a leader to submit an access management request when an employee or nonemployee is hired, transfers into a new role or department, or terminates his or her employment. Once the requests are approved by the required personnel within RAMS, Information Security and Risk and in certain cases designated business unit administrators make the appropriate changes. | Obtained a listing of newly hired and transferred employees from the Human Resources system and for a sample of employees, inspected the following:  
  - Requested access was approved appropriately by designated management and if the requested access affected a sensitive resource, the additional approval required from the applicable resource owner was obtained.  
  - Only authorized additions/modifications were implemented by the security administrators.  
  - The queries used to generate the listings from the Human Resources system included the appropriate date selection criteria and record types for newly hired and transferred employees. | No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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| 19.3 (cont.) Formal processes exist that require a leader to submit an access management request when an employee or nonemployee is hired, transfers into a new role or department or terminates his or her employment. Once the requests are approved by the required personnel within RAMS, Information Security and Risk and in certain cases designated business unit administrators make the appropriate changes. | Obtained a listing of terminated employees from the Human Resources system and for a sample of employees, inspected the following:  
- The user’s logical access rights were appropriately removed from CA-Top Secret and the network based on the request.  
- The queries used to generate the listings from the Human Resources system included the appropriate date selection criteria and record types for terminated employees. | No deviations noted. |
**Information Technology Controls (continued)**

**Logical Access Controls (continued)**

**Control Objective #19:** Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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| 19.4 In the case of a transfer, Principal has implemented an automated process to help ensure access is reviewed and appropriately updated for all employee transfers. The IT GRC tool extracts worker transfer data from the Human Resources system on a daily basis. An automated message directs the leader through the transfer certification process. Follow-up messages occur to help ensure that certification occurs within 30 days. Although extensions are allowed to meet business need, a certification is required when an extension ends. | Observed the functioning of the IT GRC tool, noting for a sample transferring employee that the tool extracted worker data from the Human Resources system and sent an automated message to the transferring employee’s leader for certification. Obtained a listing of transferred employees from the Human Resources system and for a sample of employees, inspected the following:  
- The official transfer certification was completed and approved by a designated leader within 30 days of the transfer.  
- The queries used to generate the listings from the Human Resources system included the appropriate date selection criteria and record types for transferred employees. | No deviations noted.  
Deviation noted; see below |
Information Technology Controls (continued)

Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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<td>19.4 (cont.) In the case of a transfer, Principal has implemented an automated process to help ensure access is reviewed and appropriately updated for all employee transfers. The IT GRC tool extracts worker transfer data from the Human Resources system on a daily basis. An automated message directs the leader through the transfer certification process. Follow-up messages occur to help ensure that certification occurs within 30 days. Although extensions are allowed to meet business need, a certification is required when an extension ends. (continued)</td>
<td>In testing the transfer certification process, it was determined that a configuration change inadvertently caused the IT GRC tool to not properly identify transfers occurring within the Human Resources system between January 29, 2016 and May 23, 2016. As a result, user access for 250 employee transfers during this period was not certified in a timely manner. Additional procedures determined that: (1) the configuration change was corrected on May 23, 2016, (2) all required transfer certifications were completed after identification of this issue for the period from January 29, 2016 through remediation on May 23, 2016, and (3) no potentially inappropriate access retained by the transferring employees during this period prior to their transfer certification was used.</td>
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Management Response: Management confirmed that the system date logic related to the look back period used by the IT GRC tool to identify departmental transfers was inadvertently changed along with a separate, non-related system update. This was discovered during testing and impacted 250 employee transfer certifications. After processing the 250 employee transfers through the certification process, obtaining certifications where applicable, and follow-up analysis; management determined that at least one or more mitigating scenarios applied for each: (1) access was revoked in a timely manner, (2) no change in job responsibility, (3) past job responsibilities did not include transactional access, (4) business need for access required longer than 30 days extending beyond the deviation period, or (5) access was not used after the transfer date. Management updated the system date logic May 23, 2016 and determined the process is functioning appropriately.
Information Technology Controls (continued)
Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

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| 19.5 Access to the LVIndiv distributed application is reviewed semiannually. | For a sample semiannual access review for LVIndiv, inspected the following:  
  - Access was appropriately reviewed by designated management and changes were made in accordance with the review.  
  - The queries used to generate the system-generated listing of users from LVIndiv included the appropriate record types for all users. | No deviations noted. |
## Information Technology Controls (continued)

### Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

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| 19.6 Logical access to production program files and production data files on the mainframe system is restricted by CA-Top Secret, which is in FAIL mode. Systems have been implemented to restrict unauthorized access to protected resources and to enforce certain user ID and password conventions, including violation thresholds and expiration intervals. | Inspected a system-generated report of the CA-Top Secret global and facility security parameters noting compliance with Company configuration standards. Inspected system-generated security reports and inquired of IT leaders as to the appropriateness of access granted to system users, facilities and programs as disclosed on the system reports for select system resources including:  
- For a sample of sensitive mainframe libraries housing key parameters and security data for CA-Top Secret.  
- CA-Top Secret user IDs with access to sensitive mainframe utilities and authorities (including, but not limited to, AMASPZAP and IMASPZAP and the ability to link edit programs with an Authorization Code=1).  
- CA-Top Secret user IDs with “ALL” access to datasets.  
- For a sample of mainframe resources accessible by all users with a level of access greater than READ.  
- For a sample of users with sensitive access to Unix System Services.  
- Users with sensitive DB2 and SQL authorities for a sample DB2 database and a sample SQL database. | No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

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<tr>
<td>19.6 (cont.) Logical access to production program files and production data files on the mainframe system is restricted by CA-Top Secret, which is in FAIL mode. Systems have been implemented to restrict unauthorized access to protected resources and to enforce certain user ID and password conventions, including violation thresholds and expiration intervals. (continued)</td>
<td>For a sample semiannual review of ACIDs not in FAIL mode, inspected the following: • The review was completed by designated members of Information Security and Risk. • Changes resulting from the review had been executed based on the review results. • The query for the system-generated listing of ACIDs not in FAIL mode was complete including the correct selection criteria for the users. Inspected key DB2 start-up parameters and SQL configuration settings for a sample SQL and DB2 database noting compliance with Principal configuration standards. Inspected the CA-Top Secret violation logs used by Information Security and Risk and inquired to Information Security and Risk leaders noting violations are reported, investigated and resolved in accordance with the documented process.</td>
<td>No deviations noted. No deviations noted. No deviations noted.</td>
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Information Technology Controls (continued)

Logical Access Controls (continued)

**Control Objective #19:** Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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| 19.7 Routine maintenance to CA-Top Secret is performed by members of the Information Security and Risk group based on requests approved through RAMS and processed through an automated security administration routine. In addition, more sensitive maintenance activity is performed manually by a separate team of Information Security and Risk staff based on authorized instructions. | Inspected system reports of the functioning of and security over the automated security administration routine in the mainframe. Inspected system-generated security reports of users with access to the DB2 database infrastructure of the automated security administration routine and inquired with an IT Leader as to the appropriateness of the access granted based on job responsibility. Obtained a system-generated listing of additions and changes to the CA-Top Secret access rules, and for a sample of additions and changes applied manually (i.e., outside of the automated security administration routine), inspected the following:  
  • Supporting request for user access and noted each change was approved by an appropriate leader and data steward, if necessary, in accordance with the request.  
  • The queries used to generate the listings from CA-Top Secret included the appropriate date selection criteria and record types for access rule changes. | No deviations noted. No deviations noted. No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

(continued)

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<td>19.7 (cont.) Routine maintenance to CA-Top Secret is performed by members of the Information Security and Risk group based on requests approved through RAMS and processed through an automated security administration routine. In addition, more sensitive maintenance activity is performed manually by a separate team of Information Security and Risk staff based on authorized instructions. (continued)</td>
<td>For a sample semiannual review of all CA-Top Secret administrator assignments, inspected the following: - The review was completed by designated members of Information Security and Risk. - Changes resulting from the review had been executed based on the review results. - The query for the system-generated listing of all administrator assignments was complete including the correct selection criteria for administrative users.</td>
<td>Deviation noted; see below.</td>
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In testing a sample semiannual review of CA-Top Secret administrative authorities, four instances were identified where reviewers determined that administrative authorities should be revoked or modified; however, the reviewers failed to submit access requests. Additional procedures performed determined that (1) the three requested removals and one modification were subsequently completed and (2) no inappropriate administrative authority was used by the users prior to removal or modification.

**Management response:** Management confirmed requests to revoke or change access were not submitted for the four employees tested. This issue resulted from a transition of responsibility and procedures were not clearly defined. Procedures have been updated and communicated to all parties. Subsequently, management determined the administrative authority for two of the employees was limited to their own password. The remaining two employees were determined to have unnecessary authority; however the access was not used after it was determined it was no longer needed.
Information Technology Controls (continued)

Logical Access Controls (continued)

Control Objective #19: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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| 19.8 Information Security and Risk conducts various user access appropriateness reviews on a semiannual or quarterly basis. These reviews include, but are not limited to, the following: (1) the appropriateness of users defined as CA-Top Secret administrators, (2) the validity of defined CA-Top Secret started tasks, (3) the appropriateness of users defined with the ability to transfer programs into the production environment, (4) the validity of ACIDs not in FAIL mode, and (5) the appropriateness of access to sensitive authorities within CA-Top Secret. | For a sample semiannual review of all CA-Top Secret administrator assignments, inspected the following:  
- The review was completed by designated members of Information Security and Risk.  
- Changes resulting from the review had been executed based on the review results.  
- The query for the system-generated listing of all administrator assignments was complete including the correct selection criteria for administrative users.  
For a sample of quarterly reviews of all (1) CA-Top Secret started tasks and (2) CA-Top Secret users with access to sensitive authorities, inspected the following:  
- Access was reviewed for appropriateness by an IT leader.  
- Changes resulting from the review had been executed based on the review results.  
- The queries for the system-generated listings were complete including the correct selection criteria for the started tasks and users. | Deviation noted; see discussion and management response at control 19.7.  
No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls (continued)

**Control Objective #19**: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

(continued)

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| 19.8 (cont.) Information Security and Risk conducts various user access appropriateness reviews on a semiannual or quarterly basis. These reviews include, but are not limited to, the following: (1) the appropriateness of users defined as CA-Top Secret administrators, (2) the validity of defined CA-Top Secret started tasks, (3) the appropriateness of users defined with the ability to transfer programs into the production environment, (4) the validity of ACIDs not in FAIL mode, and (5) the appropriateness of access to sensitive authorities within CA-Top Secret. (continued) | For a sample semiannual review of ACIDs not in FAIL mode, inspected the following:  
• The review was completed by designated members of Information Security and Risk.  
• Changes resulting from the review had been executed based on the review results.  
• The query for the system-generated listing of ACIDs not in FAIL mode was complete including the correct selection criteria for the users.  
For a sample semiannual review of the users granted the ability to transfer programs into production, inspected the following:  
• The review was completed timely by designated members of management.  
• For a sample of changes resulting from the review, inspected that access had been modified appropriately based on the review results.  
• The query for the system-generated listing of users from CA-Top Secret included the appropriate selection criteria for users granted the ability to transfer programs into production. | No deviations noted.  
Deviation noted; see discussion and management response at control 17.8. |
### Information Technology Controls (continued)

**Logical Access Controls (continued)**

**Control Objective #19:** Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties. (continued)

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| 19.9 Logical access to and within the distributed application servers is controlled by security parameters within the Windows and Unix operating system that is restricted to and maintained by the appropriate Distributed Hosting personnel. | Inspected key security configuration standards for the Windows and Unix platforms and noted the standards support security objectives for Principal. For a sample semiannual review of all (1) domain administrator access and (2) Unix privileged account access, inspected the following:  
  * Access was reviewed for appropriateness by an IT leader.  
  * Changes resulting from the review had been executed based on the review results.  
  * The queries for the system-generated listings of all administrator assignments were complete including the correct selection criteria for the users.  

For a sample of quarterly reviews of all Windows local administrator access, inspected the following:  
  * Access was reviewed for appropriateness by an IT leader.  
  * Changes resulting from the review had been executed based on the review results.  
  * The queries for the system-generated listings of all administrator access were complete including the correct selection criteria for the users. | No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls (continued)

**Control Objective #19:** Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

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| 19.10 Defined standards have been developed for the security parameters that must be configured on each of the application servers. The Windows and Unix security parameters are reviewed on a quarterly basis by Information Security and Risk. Settings not in compliance with the defined security standards are reported to the CIO Working Group. | Obtained the defined standards and inspected security configurations of sample Windows and Unix servers for appropriateness and consistency with the documented configurations standards. For a sample of quarterly reviews of Windows security settings, inspected the following:  
- Settings were reviewed by Information Security and Risk personnel and issues were recorded and communicated to Information Security and Risk management.  
- Settings not in compliance were changed appropriately based on the review results,  
- The script used to perform the review was complete and included the correct selection criteria for the servers. | No deviations noted. |
Information Technology Controls (continued)

Logical Access Controls (continued)

**Control Objective #19**: Controls provide reasonable assurance that logical access to applications and data is restricted to authorized and appropriate users to (1) protect applications and data from unauthorized modification and (2) support the segregation of duties.

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| 19.10 (cont.) Defined standards have been developed for the security parameters that must be configured on each of the application servers. The Windows and Unix security parameters are reviewed on a quarterly basis by Information Security and Risk. Settings not in compliance with the defined security standards are reported to the CIO Working Group. | For a sample of quarterly reviews of Unix security settings, inspected the following:  
- Settings were reviewed by Distributed Hosting personnel on a daily basis and settings not in compliance were changed based on the review results.  
- Review results were recorded and communicated to management on a quarterly basis.  
- The script used to perform the review was complete including the correct selection criteria for the servers.  
Inquired of Distributed Hosting personnel and inspected evidence of the process followed for building new Windows and Unix servers and applying security patches to the Windows and Unix environments. | No deviations noted. |
| 19.11 Access to Secure Plan Sponsor Website and the Secure Participant Website usernames, passwords, and challenge questions and answers is restricted and reviewed for appropriateness on a semiannual basis. | Inspected a sample semiannual review, noting that access to the Secure Plan Sponsor Website and the Secure Participant Website usernames, passwords, and challenge questions and answers was appropriately reviewed.  
Inquired of Distributed Hosting personnel and observed passwords are stored using Active Directory native one-way encryption. | No deviations noted. |
Information Technology Controls (continued)

Computer Operations

Control Objective #20: Controls provide reasonable assurance that application and system processing are authorized and executed in a complete, accurate, and timely manner; and deviations, problems, and errors are identified, tracked, recorded, and resolved in a complete, accurate, and timely manner.

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<td>20.1 CA-7 and TWS are used to schedule, submit and monitor production batch processing to help ensure that batch programs are executed in a predefined sequence as authorized by management in mainframe and distributed platforms.</td>
<td>Inquired with the Integrated Operations Center personnel and observed the functioning of the CA-7 and TWS scheduling processes for production job submission.</td>
<td>No deviations noted.</td>
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</table>
| 20.2 Changes to the automated schedule are requested through approved production change management procedures for routine (e.g., new job submissions) and non-routine (e.g., on-demand reports) requests. Authorization for these requests is performed via programmed controls in conjunction with CA-7, TWS and the change management systems. | Inspected system reports of the automated approval of processing requests within CA-7 and TWS noting the following:  
- Only authorized users have the ability to submit a new job, change, or delete request within CA-7 and TWS in the transfer module.  
- Only authorized users have the ability to approve a request within CA-7 and TWS.  
- Schedule requests require a change management systems change record number within CA-7 and TWS, or exclude rationale that is reviewed by management.  
Obtained system-generated listings from the change management systems of change implementations and for a sample of changes, inspected the following:  
- Each change record was properly approved prior to implementation.  
- The queries used to generate the listings from the change management systems included the appropriate date selection criteria and record types for change records. | No deviations noted. |
## Information Technology Controls (continued)

### Computer Operations (continued)

**Control Objective #20**: Controls provide reasonable assurance that application and system processing are authorized and executed in a complete, accurate, and timely manner; and deviations, problems, and errors are identified, tracked, recorded, and resolved in a complete, accurate, and timely manner. (continued)

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| 20.3 Deviations from scheduled processing are monitored by the Balancing and Scheduling Team on a daily basis using reports generated from CA-7 and TWS. For any job that abends, a ticket is created in the appropriate console. These consoles are monitored 24/7 and managed based on job class for CA-7 and on priority codes for TWS by the Integrated Operations Center. | Inspected a daily CA-7 JCL validation report and a daily TWS validation report noting the reports were reviewed by Integrated Operations Center personnel and that reported variations between job names and the corresponding JCL were appropriately resolved. Inspected documentation from CA-7 and TWS of deviations from scheduled processing noting timely investigation and resolution for the following types of deviations:  
- CA-7 Overrides  
- CA-7 Restart  
- TWS Restart  
- CA-7 Cancellations  
- TWS Cancellations  
Inspected documentation of one CA-7 abend and one TWS abend and noted the following for each:  
- The abend was logged in HP Service Manager as required by priority level.  
- The abend was investigated and resolved in a timely manner in accordance with established Incident Management policies. | No deviations noted. No deviations noted. No deviations noted. |
Information Technology Controls (continued)

Computer Operations (continued)

**Control Objective #20**: Controls provide reasonable assurance that application and system processing are authorized and executed in a complete, accurate, and timely manner; and deviations, problems, and errors are identified, tracked, recorded, and resolved in a complete, accurate, and timely manner. (continued)

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| 20.4 Reviews of CA-7 and TWS access are coordinated by Information Security and Risk on a semiannual basis. | For a sample semiannual review performed of access to CA-7, inspected the following:  
- Access was appropriately reviewed by supervisory level IT personnel.  
- Changes in access were made in accordance with the results of the review.  
- The queries used to generate the listings from the system reviewed were complete including the correct selection criteria for the users. | No deviations noted. |
| | For a sample semiannual review performed of access to TWS, inspected the following:  
- Access was appropriately reviewed by supervisory level IT personnel.  
- Changes in access were made in accordance with the results of the review.  
- The queries used to generate the listings from the system reviewed were complete including the correct selection criteria for the users. | No deviations noted. |
Information Technology Controls (continued)

Computer Operations (continued)

**Control Objective #20:** Controls provide reasonable assurance that application and system processing are authorized and executed in a complete, accurate, and timely manner; and deviations, problems, and errors are identified, tracked, recorded, and resolved in a complete, accurate, and timely manner. (continued)

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| 20.5 Principal actively monitors for system, processing, and other incidents. When identified, incidents are logged and personnel monitor open incidents for timely resolution and closure. Incidents are assigned a severity level based upon predefined criteria, and are acted on accordingly. | Inspected the incident management processes and tools used to detect and report incidents noting HP Service Manager and Cherwell ITSM were used to log incidents. Obtained system-generated listings from HP Service Manager and Cherwell ITSM of incident records and for a sample of records, inspected the following:  
  - Incidents were logged with a severity level and priority.  
  - Incidents were resolved in a timely manner in accordance with established Incident Management policies.  
  - The queries used to generate the listings from HP Service Manager and Cherwell ITSM included the appropriate record types and date selection criteria for all incidents. | No deviations noted. |
Information Technology Controls (continued)

Computer Operations (continued)

Control Objective #21: Controls provide reasonable assurance that data and applications are backed up to permit restoration of applications and processing in the event of the destruction of the applications or data.

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<tr>
<td>21.1 Critical applications and infrastructures are mirrored and backed up to virtual tape libraries, dedicated block storage, or NAS at the disaster recovery data center via automated systems. Backup systems are monitored and in event of a failure, notification is made per standard operating procedures to the appropriate on-call staff.</td>
<td>Inspected system reports of the functioning of the scheduling systems to automatically back up files to virtual tape libraries or NAS. For a sample of production programs, inspected system reports of the following: (1) the programs were located in the production library specified for back up purposes and (2) the production jobs utilized to automatically back up the related production library to the virtual tape libraries or NAS were appropriately scheduled for processing and functioning.</td>
<td>No deviations noted.</td>
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Section V – Other Information Provided by Principal Life

Privacy

Principal recognizes the importance of privacy and confidentiality of our plan sponsors’ and plan participants’ information and is committed to maintaining customer confidence in its ability to safeguard and protect all entrusted information. Principal has developed guidelines, procedures and security measures to help ensure appropriate handling of information, limiting access to data and regularly testing our security technology. During the course of business, it is necessary for Principal to record, store, process, transmit, and otherwise handle sensitive client, customer and Company information. The Company takes these activities seriously and seeks to provide fair, secure, and appropriate handling of all information. All data handling activities by Principal and its affiliates (whether domestic or international) are intended to be consistent with all applicable legal requirements in the jurisdictions where Principal and its affiliates do business. Access to information is restricted to those employees and others who have a business need to access the information to perform their job duties. Compliance with privacy and confidentiality practices regarding Company information is expected of all employees. All employees are reminded regularly of their responsibility to maintain the privacy and confidentiality of all information.

All employees are required to maintain the confidentiality of customer information as defined by policies established by Principal. Principal has a Corporate Privacy Policy that is readily available on the Company’s internal website to all employees. The Chief Privacy Officer is the final authority of the policy, which outlines privacy procedures for Principal processes including, but not limited to, the following:

- Compliance with Law
- Protecting Confidential and Restricted-Internal Use Information
- Breach of information
- Lost Equipment
- Use of Social Security Numbers
- Shredding and Disposal
- Encryption
- Privacy in the Workplace (e.g., Authorized Personnel, Mobile Device Access)
- Credit & Debit (Payment) Card Data

All occurrences of Personally Identifiable Information, reasonably believed to have been acquired by an unauthorized person are to be immediately reported. Employees are to complete a Customer Account Breach Report Form notifying the Chief Privacy Officer and the employee’s business unit privacy contact. Employees are subject to disciplinary action if they fail to follow the policy and report breach of information.

In compliance with federal and state laws and regulations for financial institutions, Principal continues to send privacy notices to new plan sponsors on an ongoing basis, and will distribute notices to all clients at least annually.
Information regarding the online privacy policies of Principal can be viewed at http://www.principal.com/privacy/index.htm

**Business Continuity Program**

Principal is committed through the Business Continuity Program to protect our customers’ financial assets and other interests. Business Continuity at Principal works toward enabling the continued operation of the business units and subsidiaries through an organized recovery program. Critical business capabilities and processes are identified, followed by development of appropriate response and recovery plans. The Business Continuity Program is based on professional practices established by the Disaster Recovery Institute International. A Business Continuity Policy is published on the corporate intranet and includes business continuity and disaster recovery planning. The Business Continuity Team and Disaster Recovery Team review the policy and procedures at least every two years.

The business continuity philosophy at Principal is to take an all hazard approach, planning for the potential loss of people, facilities and computing technology regardless of the cause for the loss. Principal also assumes, for planning purposes, total loss of the operational site. With plans in place using this approach and assumption, Principal is able to adjust the plans to deal with less catastrophic events.

Business units are responsible for planning for continuity of their operations. Business unit heads define business areas within the business unit and appoint Business Continuity Executives. The Business Continuity Executives are responsible for the continuity of operations for that business area. Business Continuity Contacts are appointed by the Business Continuity Executives and are accountable for the development, maintenance, implementation, and exercising of their Business Continuity plans.

The Business Continuity Team produces an annual assessment report. The report measures the progress of the Business Continuity Program compliance with the Business Continuity Standards. The assessment is communicated to the business continuity executives and other interested parties, including the Board of Directors.

Additional details of the Business Continuity Program follow:

**Operational Risk Assessment:** The operational risk assessment is updated annually by the Operational Risk Working Group (ORWG) to identify risks that threaten continuity of operations for the organization. In conjunction with the Business Impact Analysis (BIA), approval is given at least biennially on identified risks unique to each business unit along with identified mitigation options and solutions. Each business unit is ultimately responsible to measure and manage the risks associated with its business activities. It must understand and take an enterprise wide view of risk, which requires an understanding of the impact its business unit decisions and activities have on the total organization. All business units identify and assess risk for their unit, including emerging risks which may have a future impact on the business. Risks are reviewed by business units on a quarterly basis and reflect management’s expert judgment of potential loss events.
**Business Impact Analysis:** The BIA is conducted every two years at the business area level. The purpose of the BIA is to review the business area’s capabilities and processes and identify their supporting applications. Taking into consideration the operational risk for that business area, recovery time objectives are identified for each business capability and supporting processes. Supporting applications are also assigned a recovery time objective as well as a recovery point objective. Business continuity executives will sign-off on capabilities and processes. Participants include business continuity executives, various business continuity and disaster recovery contacts, along with business unit senior leadership.

**Business Continuity Plans:** Every business area at Principal is required to have a Business Continuity Plan. The plans are developed to prepare for and respond to an incident causing a business interruption. Business Continuity Plans are updated annually and with significant business model changes. Business areas are expected to follow policy and include the required elements. At a minimum, business continuity plans should include the data elements outlined in the plan templates provided by the Business Continuity Team. Material is managed according to enterprise guidelines for location and retention. Business continuity executives sign-off on annual and interim plan updates. Every non-Corporate Campus site also has business continuity specific steps included in their Emergency Action Plan.

**Business Continuity Plan Testing:**

Throughout the year, various business continuity exercises are conducted to enable the most effective response during a business interruption. Practicing a recovery team’s response in a low stress environment helps to ensure preparedness in both the solution and the personnel.

Business continuity exercises are conducted annually and consist of the following:

- Call tree or communication plan,
- Alternate worksite or Remote Access functionality, and
- A tabletop exercise with the business area recovery team.

Principal third-party service providers are required to have disaster recovery and other continuity plans in place for the prompt resumption of performance of the services in the event of disasters and other circumstances that may affect its performance of the services. This requirement is a provision within the supplier contractual agreement with Principal and is agreed upon when signed.

**Incident Response Framework**

There are several steps from the time an incident is identified until it is resolved. These are generally progressive; however, they may occur simultaneously depending on the nature of the incident. Communication and assessment will occur throughout the lifecycle of an incident.
Principal has an incident management framework that provides a process for incident response leadership and activities including escalation when a business disrupting incident occurs. Operational response teams manage incidents at a business level and based on established triggers escalate to corporate response teams for management of significant or broad scale incidents.

Incidents occur across the organization that require management, although not at a corporate level due the breadth and severity of impact to normal business operations. Our international operations have established procedures for interacting with domestic operational response teams. Each response team is led by an incident manager and utilizes resources in other areas of the Company, such as Global Brand Center, Human Resources and Legal, in their response efforts. We have established operational response teams to deal with these incident types:

- IT Incidents
- Cybersecurity Incidents
- Other Incidents (staff safety, physical property)

More severe incidents requiring broad coordination of response activities are escalated to the corporate level with notification to the Core Response Team (CRT) Leader. Escalation to the CRT Leader can come directly from the operational incident manager or from our Global Security Operational Center (GSOC). Our international operations often leverage the GSOC as it is staffed 24-hours a day, 7-days a week and has access to contact information for corporate response team members. We have established the following response teams at the corporate level:

- Core Response Team (CRT) – The response team accountable for providing tactical decisions and direction in response to business interruptions. CRT membership consists of representation from key corporate functions and business segments and is led by the Director or Assistant Director of Business Continuity.

- Executive Response Team (ERT) – The response team accountable for providing strategic decisions and direction in response to business interruptions. ERT membership consists of the senior executive team and is led by the Chief Information Officer or Chief Investment Officer.

Principal has a Corporate Incident Management Plan (CIM Plan) to manage the coordination of response activities that is escalated to the corporate level. The CIM Plan has management support and is supported by the appropriate training and resources. The CIM Plan and its supporting documentation consist of:
• Guidance on what constitutes an incident and how to classify the severity of the incident for cybersecurity, Information Technology (IT) and all other incidents impacting ability to conduct business operations.

• Escalation guidelines for operational response teams for cybersecurity, IT, and all other incident response teams.

• Clarification of roles and responsibilities for operational response teams, CRT and ERT.

• Communication response guidelines for the three types of incidents including how to formally report cybersecurity incidents.

• Tasks and action lists to manage the response to a business disruption.

Members of CRT are responsible for re-establishing business capabilities and staff to normal operations. CRT will coordinate a move to an alternate site as well as coordinate efforts for establishing a new location or returning to previous location.

**Disaster Recovery**

The Disaster Recovery program complements the Business Continuity program focusing on Information Technology (IT) systems recovery required to support business operations. The Business Continuity Team partners with the Disaster Recovery Team to ensure recovery plans and exercises position the Company to effectively respond to incidents that may lead to a business interruption. Reducing operational and financial risk is a key component in both programs along with creating a better prepared response team.

The Disaster Recovery Team provides the corporate oversight for the Disaster Recovery program. Business Unit CIO’s are accountable for ensuring recovery of their business area applications and the Corporate Technology Officer is accountable for ensuring recovery of the infrastructure systems. Disaster Recovery Contacts are assigned by senior IT management for each business unit and are responsible for the planning and exercising of recovery solutions. Principal has a formal architecture program that is leveraged to ensure disaster recovery requirements are incorporated into application/system designs.

As a part of the BIA process, Disaster Recovery Contacts collaborate with the Business Continuity Contacts to determine the appropriate Recovery Time Objective and Recovery Point Objective for each application required by the business capabilities identified in the BIA.

The technology response to a disaster at Principal includes an enterprise technology recovery plan. The Corporate Disaster Recovery Plan is used to prepare for and respond to a total loss of the production data center. The Disaster Recovery Team owns this plan and is responsible for ensuring the plan will provide steps needed for continuity of infrastructure/applications in the event of a loss of the production data center. The Corporate Disaster Recovery Plan has identified phases to complete in the event, and following execution of the defined phases, the data center functionality is re-established at the disaster recovery data center located out-of-state. Specific instructions for all of the phases can be found within the Corporate Disaster Recovery Plan.
The Disaster Recovery Team creates a quarterly assessment to report on the progress of the Disaster Recovery Program measuring compliance against Disaster Recovery standards. The assessment is communicated to the CIO’s and other interested parties. Elements of the quarterly disaster recovery assessment are included in the annual Business Continuity assessment.

Additional details of the Disaster Recovery Program follow:

**Disaster Recovery Plans:** The disaster recovery contacts are responsible for the development and maintenance of recovery plans. Disaster Recovery Plans are required for all critical infrastructure and applications (those required in the first 72 hours after a data center loss). Disaster Recovery Plans are updated annually and with significant system changes and contain the elements documented in the disaster recovery plan template. Those plans are reviewed and approved by business unit disaster recovery representatives.

**Disaster Recovery Testing:** Critical infrastructure and applications (those required in the first 72 hours) must be tested on an annual basis. To validate and continuously refine recovery procedures, multiple tests are executed throughout the year on generally a quarterly basis. Results of these tests are included in the quarterly assessment report to management.

**Disaster Recovery Strategy:** The cornerstones of the Disaster Recovery strategy include two geographically distant data centers, a production data center and a disaster recovery data center. The data centers are highly redundant including redundant electrical systems, cooling systems and uninterruptible power systems. In addition, there are redundant backup diesel generators as resources in the event of a power loss. The production data center provides high availability solutions to mitigate the loss of a single storage or server system. The disaster recovery data center is a clone of the production data center to mitigate the loss of an entire data center. Continuous replication of data to the disaster recovery data center and equivalent server, voice and data network hardware at the disaster recovery data center enables the recovery of our full data center. Wide Area Network (WAN) standard set-up includes connectivity to both data centers. Internet connectivity exists in both data centers via redundant hardware and internetworking connectivity.

In an effort to maintain business continuity and secure important assets, back-ups are routinely completed. On a daily basis, all critical program and data files stored on the mainframe and distributed systems are backed up and transmitted electronically over a dedicated network of Principal to virtual tape libraries, block level storage, or NAS systems at the disaster recovery data center.
Information Security Program

A formal Enterprise Information Security Program has been established to help ensure the information assets of Principal are protected. The Chief Information Security Officer (CISO) and an internal dedicated team of security professionals are responsible for the Company’s information security program. This includes establishing policies, standards, and processes to support the security program. The program is reviewed and approved on an annual basis by the Board of Directors. Policies and standards are established providing guidance on how to configure security components and logical security controls.

Principal understands the importance of privacy and the confidentiality of customers’ information. In compliance with applicable laws, a written, comprehensive security program is in place that applies to information stored and processed within the Company. The high level components of the program include:

- A mature policy development/maintenance process that includes review at least every two years by technical subject matter experts (SMEs), Information Security and Risk staff and Corporate Policy Committee; with final approval by the CISO.
- Documented security policies and standards, including disciplinary measures for violations. This information is shared with employees on an ongoing basis and available on the corporate intranet.
- A designated team of employees dedicated solely to implementing and maintaining comprehensive information security program across the Company.
- Limits on collection of personal information to only what is reasonably necessary to accomplish the legitimate purpose for which it is collected.
- Documented procedures for accessing, sharing and transporting records appropriately outside of business premises.
- Secured electronic records and data, with access limited to only those with a business need to access the information to perform their job duties including prevention of terminated employees from accessing records.
- Non-employee access is limited to information necessary for the specific function detailed in the relevant contract. The business area that owns the primary relationship with the non-employee is responsible for determining the access requirements. Non-employees that have direct access to the Company network are required to sign a Statement of Understanding when they are on-boarded. Vendors that have the Statement of Understanding language already included in their service agreement may be exempted from their employees signing the individual Statement of Understanding.
- A due diligence process to help ensure third parties with access to PII have the capacity to protect such information.
- Regular monitoring of the program to assure it maintains pace with changes in the environment and upgrading safeguards as necessary to limit risk.

- Quarterly compliance reports provide a state of compliance with information security policies and standards to key IT leaders for their review and action to resolve non-compliant issues.

The comprehensive information security program of Principal includes the following administrative, technical, and physical safeguards:

- Secure user authentication protocols are in place, including unique username and password, security questions and answers, a login image and phrase, and adaptive authentication for Plan Participants and Plan Sponsor.

- Encryption of passwords in systems and encryption of data during transmission wherever possible.

- Encryption of endpoint devices.

- Well-maintained firewalls, malware protection, an Incident Response Plan, and patching processes to ensure updates are applied on a regular basis.

- Intrusion detection systems that are actively monitored for malicious activity.

- Regular perimeter and infrastructure reviews.

- External consulting and auditing firms test defense and report on any detected vulnerabilities.

- Data Leakage Prevention solution that provides endpoint monitoring, endpoint blocking, and partial network monitoring.

- Phishing tests conducted quarterly for the majority of our company.

- Work area assessments conducted periodically.

**Security Education and Awareness Training:** The Information Security and Risk Education and Awareness (E&A) function consists of security professionals that provide written guidance and periodic education to all employees and is responsible for implementation of a variety of communication and educational offerings to employees on an ongoing basis.

Employees are required to complete a variety of IT-related computer based training. The most common training is the annual security/privacy refresher training, which is required for employees (management requires at least 85% compliance). The purpose of the training is to remind employees of Company practices, review key policy changes and highlight any security-related hot topics.

In addition, key courses are required to be taken by new employees. Those courses currently address key data security and privacy topics such as classifying information, information security basics, privacy policy, records retention policy and social engineering.
Awareness communications are published on a regular basis regarding information security topics to employees on the corporate intranet site. This is done to raise awareness around information security best practices and/or current information security threats or vulnerabilities.

**Records Retention Policy**

Principal retains records created in the ordinary course of business for the period of time necessary to meet business requirements and legal obligations.

Principal defines a record as (included but not limited to): Any information related to business activities that is recorded on paper, microfilm, electronic media, or digital media that has an ongoing business, legal, operational or historical value. Records will be destroyed after termination of the retention period, provided the record is not needed for an imminent or pending legal or regulatory action. Records will be destroyed in a manner designed to protect the confidential information of its customers.

The enterprise-wide Records Retention Schedule defines the retention period for records. The Retention Schedule reflects business, legal and regulatory retention requirements. If legal retention periods are defined for the record’s subject matter, this period is the minimum time Principal will retain the record. The business area responsible for this record may increase this time period to meet business needs. These decisions are captured in the Records Retention Schedule.

All employees are responsible to properly retain and destroy records, consistent with this policy, and are required to complete training courses related to records retention. Employees who are concerned that there is a violation of the Records Retention Policy should discuss the situation with a leader/manager. The leader/manager should review the concern and report the situation to the business unit compliance officer. If the concerns continue, the violation is escalated to the Chief Compliance Officer or Information Retention Officer.

Principal has established Company-wide document retention and recordkeeping guidelines within the Records Retention Policy. The Records Retention Governance Group reviews and approves the policy annually. The Information Retention Officer is responsible for the development, communication and maintenance of the policy. Business Unit Compliance Officers are responsible to enforce this Policy and to report material compliance deficiencies to the Chief Compliance Officer, as well as Business Unit management. Internal Audit and Risk Consulting are responsible to periodically complete a Record Management process review. The Records Retention Governance Group includes Principal General Counsel, the Chief Risk Officer (CRO), and the Chief Information Officer (CIO) of Principal as permanent members. Other senior executives may be appointed by permanent members on an as-needed basis.

The Records Retention Governance Group meets at least four times annually. This group:

- Advises the Information Retention Officer on strategic records retention direction and identifying priority for records retention efforts.

- Champions records retention projects that result from strategic priority setting.
• Reviews and approves records retention operational plans.

• Reviews and updates the Records Retention Governance Charter at least annually or sooner if conditions dictate.

• Reviews and updates the enterprise-wide Records Retention Policy at least annually or sooner if conditions dictate.

• Serving as the final authority when a business unit’s Senior Management disagrees with the Information Retention Officer’s recommended action on records retention issues. The General Counsel will serve as the final decision maker if consensus cannot be reached among the Governance Group.

• Reports annually to the Board of Director’s Audit Committee on the status of the records retention program.

• Advises the Information Retention Officer on frequency of review of the Records Retention Schedule, with the standard review frequency being every two years.

The Records Retention Schedule was developed by working with subject matter experts throughout Principal and is considered to be Company policy as referenced by the Records Retention Policy. The retention rules reflect all lines of business, and are based on legal, regulatory and business requirements. Once the retention period expires, records must be destroyed unless notification is received from the Law Department that the records must be held due to litigation, investigation or regulatory audit. These retention rules apply to the official copy of each business record. If duplicate copies are created for specific business needs, the duplicate copies may be destroyed when that business need has been met. Duplicate copies do not need to be retained as long as the official copy, and should not be retained longer than the official copy of the record. In the event of a document hold, these retention rules should be suspended as follows: Records identified as being in the scope of the document hold must be retained until notification is given that the document hold has been released. This includes both official copies and duplicate copies of the records, unless otherwise directed by the Law Department.

A Data Disposal Policy provides formal guidelines and procedures to direct the disposal of all information securely and safely when no longer required as determined by Records Retention Policy. Formally approved and documented procedures for the secure disposal of media minimize the risk of information leakage to unauthorized persons. All information and media is to be disposed of in a manner that ensures the information cannot be reconstructed into a usable format, using formal approved procedures in accordance with the Data Disposal Policy.

Resolution of Outstanding Disbursement Checks

When disbursements are requested, participant funds are moved from the plan into the general account of Principal Life or Principal Trust where they remain until the check is negotiated.

Disbursement checks that have not been negotiated within 180 days are considered stale dated. These stale dated checks must clear the bank accounts of Principal Life or Principal Trust by the end of the 12th month after the check was issued.
Principal Life helps the plan sponsor attempt to locate the missing participant in certain situations or upon request. If the participant cannot be located, the funds may be forfeited by the plan based on plan provisions or the funds are moved to the Unclaimed Property Account until required to be escheated to the state based on the participant’s last known state of residence and that states escheatment guidelines.

The dormancy period, (number of years we hold the funds in our unclaimed property account prior to escheatment), is determined by the effective date of the transaction/check and the National Association of Unclaimed Property Administrators (NAUPA) Code assigned to it. Each state legislates the dormancy period for each NAUPA Code.

Corporate Treasury is responsible for reporting and remitting to the state regulatory bodies any property abandoned by the rightful owner. All states enacted Unclaimed Property laws to protect consumers against companies receiving windfall profits. Corporate Treasury monitors and adheres to these laws to ensure Principal remains in compliance at all times.

**Deceased Annuity Recipients**

On a monthly basis, Principal Life receives a file from the Social Security Administration that contains all deaths reported to the Social Security Administration in the preceding month. This file is compared against the annuitants who received payments that month. If any of those annuitants match those in the Social Security Administration file, the recipient’s record is updated with the recipient’s date of death. An Annuity Transaction Technician reviews the annuity option chosen to determine whether it’s appropriate to direct future payments to a beneficiary or stop future payments entirely and collect any overpayments.

If an annuity recipient’s check is returned to Principal Life as undeliverable, research is performed to determine the reason. If it is determined the recipient is deceased, an Annuity Transaction Technician reviews the annuity option chosen to determine whether it’s appropriate to direct future payments to a beneficiary or stop future payments entirely and collect any overpayments.

**SOC 1 and Service Level Agreement Review**

On a semiannual basis, RIS-Finance performs a review of the SOC 1 reports for State Street – Kansas City, the valuation agent that provides data related to the net asset value of Principal Life separate accounts. RIS-Finance reviews both the “State Street Kansas City Insurance Services Department: Separate Account, General Account, Mortgage Loans and Corporate Cash Possessing Controls Examination” and the “State Street Information Technology General Controls Examination” reports. The objective of the SOC 1 report review is to determine if the operational controls of the service provider are working as intended and to determine if Principal Life is comfortable with the level of risk mitigated by the SOC 1 testing results. If deficiencies are identified, it is the responsibility of the review group to report their findings to the Separate Account Operations Committee for further assessment and action, if needed. The Service Level Agreement that exists between Principal Life and State Street – Kansas City is periodically reviewed as needed by RIS-Finance.
## Principal Life Insurance Company Pooled Separate Accounts

<table>
<thead>
<tr>
<th>Separate Account Name</th>
<th>DFE #</th>
<th>Sub-Adviser</th>
<th>Valuation Agent</th>
<th>Comments</th>
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<tbody>
<tr>
<td>Principal Bond Market Index Separate Account</td>
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<td>Mellon Capital Management Corporation</td>
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<tr>
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<td>State Street-Kansas City Insurance Services and Principal Real Estate Investors LLC</td>
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<tr>
<td>Principal Diversified International Separate Account</td>
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<td>Principal Global Investors, LLC</td>
<td>State Street-Kansas City Insurance Services</td>
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<tr>
<td>Principal Financial Group, Inc. Stock Separate Account</td>
<td>086</td>
<td>Principal Life Insurance Company</td>
<td>State Street-Kansas City Insurance Services</td>
<td>Not actively marketed. Fund only holds demutualization compensation.</td>
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<tr>
<td>Principal Government &amp; High Quality Bond Separate Account</td>
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<td>Principal International SmallCap Separate Account</td>
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<tr>
<td>Principal LargeCap Growth Separate Account</td>
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<td>Principal LargeCap Value Separate Account</td>
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<td>Separate Account Name</td>
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<td>Principal SmallCap Separate Account</td>
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<td>Principal SmallCap S&amp;P 600 Index Separate Account</td>
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<tr>
<td>Principal U.S. Property Separate Account</td>
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<td>Principal Real Estate Investors, LLC</td>
<td>Principal Real Estate Investors, LLC and State Street-Kansas City Insurance Services</td>
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<td>Principal Total Market Stock Index Separate Account</td>
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<td>Principal Financial Advisors, Inc.</td>
<td>Principal Life Insurance Company</td>
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</table>
## Underlying Investments = Single Mutual Fund
### Investment Manager = Principal Life Insurance Company

<table>
<thead>
<tr>
<th>Separate Account Name</th>
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<td>Principal Blue Chip Separate Account⁴</td>
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<td>Principal Capital Appreciation Separate Account⁴</td>
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<td>Edge Asset Management, Inc.⁵</td>
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<td>Principal Diversified Real Asset Separate Account⁴</td>
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<td>Principal Equity Income Separate Account⁴</td>
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<td>Principal Global Diversified Income Separate Account⁴</td>
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<td>Principal Global Multi-Strategy Separate Account⁴</td>
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<td>Principal Global Opportunities Separate Account⁴</td>
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<td>Principal Global Real Estate Securities Separate Account⁴</td>
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<td>Principal Real Estate Investors, LLC⁵</td>
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<tr>
<td>Principal High Yield I Separate Account⁴</td>
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<td>J.P. Morgan Investment Management Inc.</td>
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<tr>
<td>Principal High Yield Separate Account⁴</td>
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<td>Principal Income Separate Account⁴</td>
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<td>Principal Inflation Protection Separate Account⁴</td>
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<td>Origin Asset Management LLP⁵</td>
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<td>T. Rowe Price Associates, Inc. Brown Advisory, LLC</td>
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<td>Principal LargeCap Growth II Separate Account</td>
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<td>American Century Investment Management, Inc. Sawgrass Asset Management, LLC</td>
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<td>Principal LargeCap Value III Separate Account</td>
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<td>Westwood Management Corp Barrow, Hanley, Mewhinney &amp; Strauss, LLC</td>
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<td>Principal LDI Short Duration Separate Account</td>
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<td>Dimensional Fund Advisors LP</td>
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<td>Principal LifeTime 2010 Separate Account</td>
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<td>Principal LifeTime 2015 Separate Account</td>
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<td>Principal LifeTime 2020 Separate Account</td>
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<td>Principal LifeTime 2030 Separate Account</td>
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<tr>
<td>Principal LifeTime 2035 Separate Account</td>
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<tr>
<td>Principal LifeTime 2040 Separate Account</td>
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<td>Principal LifeTime 2045 Separate Account</td>
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<td>Principal LifeTime 2050 Separate Account</td>
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<td>Principal LifeTime 2060 Separate Account</td>
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<td>Principal LifeTime Strategic Income Separate Account</td>
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<td>Principal Overseas Separate Account</td>
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<td>Principal Preferred Securities Separate Account</td>
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<td>Principal Real Estate Securities Separate Account</td>
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<tr>
<td>Principal Short-Term Income Separate Account</td>
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<td>Principal SmallCap Growth I Separate Account</td>
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<td>AllianceBernstein LP Brown Advisory, LLC Emerald Advisers, Inc.</td>
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<tr>
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</table>
### Underlying Investments = Single Mutual Fund (cont.)

<table>
<thead>
<tr>
<th>Separate Account Name</th>
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<th>Sub-Adviser</th>
<th>Valuation Agent</th>
<th>Comments</th>
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</tbody>
</table>

### Important Information

**Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals.**

The value of the non-guaranteed Investment Options will fluctuate so that when redeemed, shares or units may be worth more or less than the original cost.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company, member of the Principal Financial Group®, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Principal Life Insurance Company reserves the right to defer payments or transfers as permitted by the group annuity contracts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets or investment conditions which do not allow for an orderly investment transaction.
The U.S. Property Separate Account is an insurance company separate account sponsored by Principal Life Insurance Company and managed by Principal Real Estate Investors. The Separate Account is a diversified real estate equity portfolio consisting primarily of high quality, well-leased real estate properties in the multifamily, industrial, office, retail and hotel sectors. Real Estate investment options are subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Property values can decline due to environmental and other reasons. In addition, fluctuation in interest rates can negatively impact the performance of real estate investment options.

This Separate Account is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although this investment option seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.

This Separate Account invests directly in the Institutional class shares of a Principal LifeTime Fund which invest in an underlying Principal Funds, Inc. mutual fund. Each Principal LifeTime Separate Account is managed toward a particular target (retirement) date, or the approximate date the participant or investor starts withdrawing money. As each Principal LifeTime Separate Account approaches its target date, the investment mix becomes more conservative by increasing exposure to generally more conservative investment options and reducing exposure to typically more aggressive investment options. The asset allocation for each Principal LifeTime Separate Account is regularly re-adjusted within a time frame that extends 10-15 years beyond the target date, at which point it reaches its most conservative allocation. Principal LifeTime Separate Accounts assume the value of the investor’s account will be withdrawn gradually during retirement.

This Separate Account invests directly in the Institutional class shares of a Principal Strategic Asset Management Portfolio (SAM) SAM Portfolios use a multi-manager approach in pursuing their active asset allocation strategies and are available via Separate Accounts or Principal Funds. SAM Portfolios invest in mutual funds that are carefully selected by Edge Asset Management, Inc. This combination of different Principal Funds into one portfolio offers varying levels of risk and return in addition to an efficient, unique approach to retirement investing. The five SAM portfolios were developed to address a broad spectrum of investor risk tolerance, so all or as few as one of the portfolios may be appropriate for and added to an investment option lineup. Ranging from a portfolio consisting mostly of equity funds, to one that invests primarily in fixed-income funds; participants can choose the SAM portfolio that best fits their individual goals and risk tolerance.

All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holds investing in the Separate Account. Neither the principal nor the underlying assets are guaranteed at any time, including the target date. Investment risk remains at all times. Certain investment options may not be available in all states or U.S. commonwealths.

Funds allocated to a Separate Account may not be available for immediate withdrawal. Payment of principal and earnings may be delayed.

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