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## **Financial Frets Grow--Twice As Many Americans Believe U.S. is in Recession**

*One Bright Spot...Most Americans Expect a Payday From Uncle Sam*

**DES MOINES, Iowa, March 10, 2008** — Twice as many American workers (42 percent) compared to fourth quarter 2007 (21 percent), now believe the U.S. economy is in a recession, according to the latest Principal Financial Well-Being Index<sup>SM</sup>. And another 46 percent of workers believe the economy is headed for a recession.

But that's not all. Also weighing heavily on the minds of Americans are job security and their long-term financial futures. One bright point, however, the vast majority of Americans expect to receive an income tax refund this year.

The index, which surveys American workers at growing businesses with 10 to 1,000 employees and retired Americans, is released each quarter by the Principal Financial Group<sup>®</sup> and conducted by Harris Interactive<sup>®</sup>.

According to Dan Houston, president of Retirement and Investor Services at The Principal<sup>®</sup>, while income tax refunds and the Congressional economic stimulus package may provide some temporary relief, "the take-home message for all Americans is critically important. Don't panic, and stick to your long-term financial plan," he says.

### **Tax Time...Uncle Sam Comes Through**

According to the survey, most workers (83 percent) do expect a payday from Uncle Sam this year in the form of income tax refunds. But the good news lies in what people plan to do with the money, Houston says. Nearly half of workers (45 percent) plan to use the proceeds to pay down or pay off short-term debt, save or invest the refund (40 percent), or pay down or pay off longer-term debt (22 percent). Only six percent indicated they would splurge on big-ticket items. Significantly fewer retirees (46 percent) expect a refund this year. Although the same number of retirees plan to save or invest their refund (40 percent), only 16 percent plan to pay down or pay off short-term debt, and 22 percent plan to pay off longer-term debt.

### **Survey Also Says...**

Job security tops the minds of workers, with nearly half of respondents (49 percent) listing it as being most important to them, followed by long-term financial security (37 percent) and challenging work (14 percent).

The index also revealed that more than two-thirds of workers (67 percent) are very concerned about their long-term financial future. Sixty percent of workers expressed concern about their ability to save for retirement, while nearly half (49 percent) expressed concern about even being able to cover monthly expenses and reduce credit card debt or pay off short-term debt (41 percent).

### **Do It For Me, Lifecycle Investing Continues to Grow in Popularity**

The survey also revealed that workers are increasingly embracing automatic savings opportunities. Nearly half of workers (48 percent) agreed that employees should be automatically enrolled in their employer-sponsored 401(k) retirement plan with a standard savings rate, increasing seven percent from first-quarter 2007. The survey also indicated that the uptake of lifecycle/target-date funds continues to grow. Nearly one-fourth of those workers (24 percent, up five percent from second-quarter 2007) who indicated they prefer to have someone manage their funds for them, said they would select a lifecycle/target-date fund that is handled by a fund manager based upon their estimated retirement year.

“Both target-date and target-risk lifecycle investments are particularly beneficial during volatile economic times and shaky markets,” Houston says. “These are the ultimate ‘sleep at night’ options. Professional managers ensure the investments are diversified and rebalanced regularly, so they are naturally somewhat immune to short-term market fluctuations.”

### **Why Don't Some Workers Participate in Employer Plans?**

For workers who elect not to participate in an employer-sponsored retirement plan, 57 percent said it's mainly because they lack financial resources to do so. Another 15 percent indicated they aren't eligible for their plan, and 13 percent said they are too uncomfortable about investing. Among those workers whose employer does not offer access to a retirement plan, one out of five (21 percent) said they are not saving at all for

retirement. And even more worrisome, nearly half (47 percent) indicated they are using their checking and/or savings account as a means of saving for retirement.

“The notion that many workers consider their checking or savings accounts a retirement savings vehicle is startling – not far from sticking it under the mattress,” Houston said. “Despite economic fears, Americans need to be careful not to shoot themselves in the foot. Market volatility is cyclical and relatively short-term. Americans will be best served to instead take a deep breath and stick to long-term financial plans.”

### **The Road to Election 2008**

Respondents were also asked about the presidential election and how it might affect their overall financial well-being in the future. *Which party is best prepared to navigate Americans through a recession, address the economy and improve financial well-being?* According to the survey, more Americans responded the Democratic Party (33 percent of workers and 39 percent of retirees), compared to the Republican Party (24 percent of workers and 26 percent of retirees).

The survey also asked about current financial well-being compared to when President Bush took office in 2001—whether it is now better, worse or the same. More than one-third of workers (38 percent) and almost half of retirees (48 percent) believe their current financial well-being is worse now than it was when President Bush took office. Another third of employees (35 percent) and 40 percent of retirees believe their financial well-being is about the same. Only 12 percent of retirees and 26 percent of workers believe their financial well-being is better.

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#### **Methodology.**

This Principal Financial Well-Being Index<sup>SM</sup> survey was conducted online within the United States by Harris Interactive on behalf of the Principal Financial Group® between January 28 to February 3, 2008 among 1,316 employees and 589 retirees. This is one in a series of quarterly studies to identify and track changes in the workplace of small and mid-sized (growing) businesses. The first Principal Financial Well-Being Index<sup>SM</sup> survey was conducted in the United States in 2000.

Employees consisted of adults 18+ who work at small and mid-sized (SMB) U.S. businesses (firm size 10-1,000 employees). Retirees consisted of adults age 60+ who reported they are retired or those who are employed part-time or self-employed and have retired from a previous career. Results were weighted as needed for age by gender, education, race/ethnicity, education, region and household income. Propensity score weighting was also used to adjust for respondents' propensity to be online.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, Harris Interactive avoids the words “margin of error” as they are misleading. All that can be

calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

Respondents for this survey were selected from among those who have agreed to participate in Harris Interactive surveys. The data have been weighted to reflect the composition of the entire population of adult employees working for small to mid-sized U.S. businesses and retirees. Because the sample is based on those who agreed to be invited to participate in the Harris Interactive online research panel, no estimates of theoretical sampling error can be calculated.

#### **About the Principal Financial Group**

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#### **About Harris Interactive**

Harris Interactive is one of the largest and fastest-growing market research firms in the world. The company provides innovative research, insights and strategic advice to help its clients make more confident decisions which lead to measurable and enduring improvements in performance. Harris Interactive is widely known for The Harris Poll®, one of the longest running, independent opinion polls, and for pioneering online market research methods. The company has built what it believes to be the world's largest panel of survey respondents, the Harris Poll Online. Harris Interactive serves clients worldwide through its North American, European and Asian offices, and through a global network of independent market research firms. More information about Harris Interactive may be obtained at [www.harrisinteractive.com](http://www.harrisinteractive.com).

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<sup>2</sup> As of December 31, 2007