

Opportunities in the business market

Will Heidbreder, J.D., MBA, CPA, CLU

Advanced Solutions Director



For financial professional use only. Not for distribution to the public.

Small businesses mean big business

- There are more than 28.8 million small businesses¹
- 99.7% of U.S. firms have fewer than 500 employees¹
- 22% of family business owners have not completed any planning other than writing a will²
- Over the next 50 years, \$59 trillion of wealth will be transferred³

¹ U.S. Small Business Administration Office of Advocacy, U.S. Small Business Profile, 2016.

² 2017 Principal Financial Business Owner Survey.

³ Center on Wealth and Philanthropy (CWP) at Boston College, May 28, 2014.

Leaders trust leaders

Proposals

- Total business market proposals¹ = **24,414**

Plans

- Over **16,000** total BMA plans under administration¹
- Average BMA premium¹ = **\$6,584**

¹As of February 2017

For financial professional use only. Not for distribution to the public.



Informal Business Valuation & Buy-Sell Review



For financial professional use only. Not for distribution to the public.

Business valuation/Buy-sell review

Complimentary Services

What you and your clients get:

- Informal business valuation
- Business succession proposal
- Buy-sell review summary

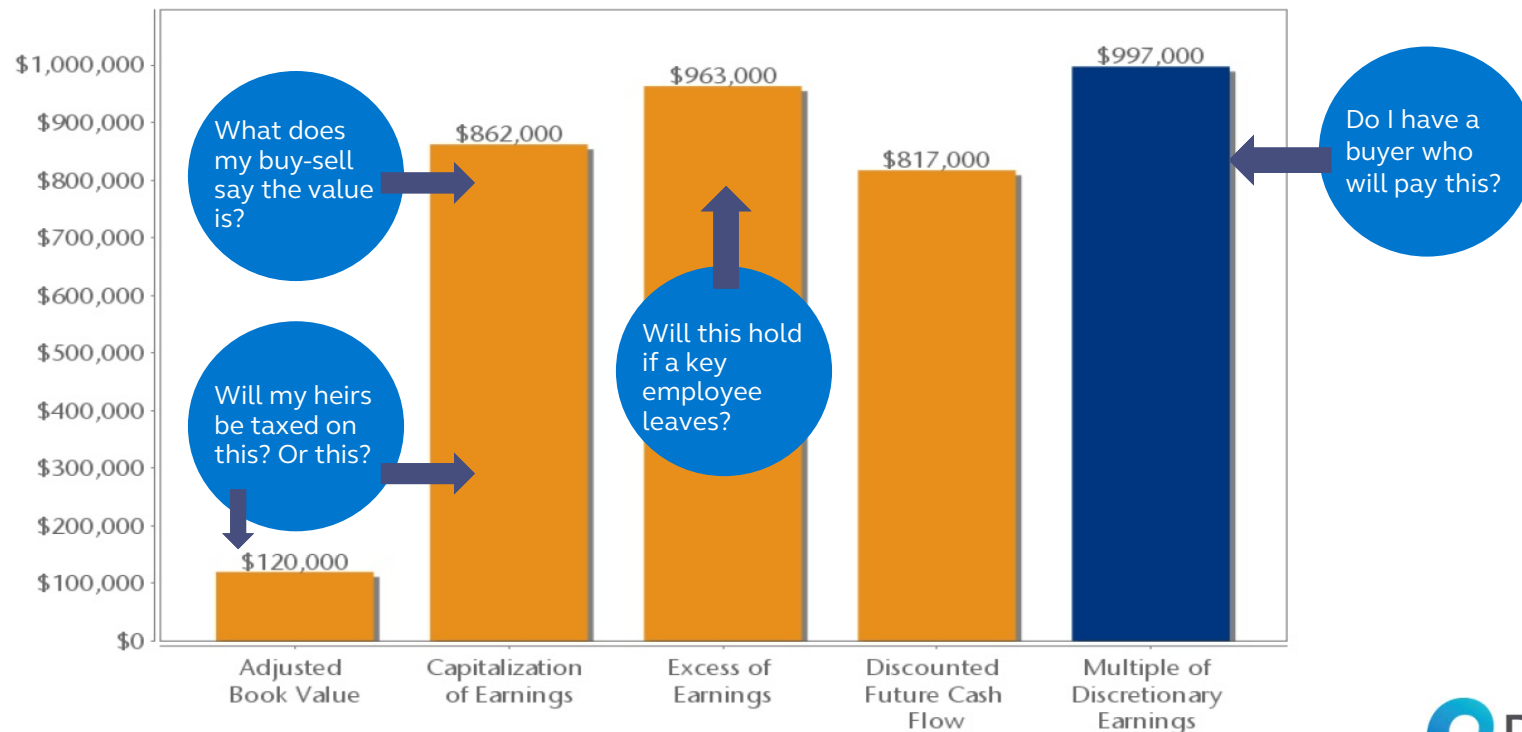


For financial professional use only. Not for distribution to the public.



Business valuation/Buy-sell review

5 common valuation methods



For financial professional use only. Not for distribution to the public.

Business valuation/Buy-sell review

What is a Buy-Sell Review?

Buy-Sell Review

Principal

Plan for the future of your business

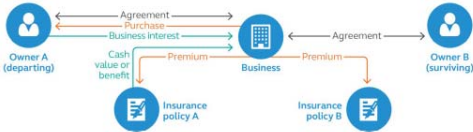
Presented to
Company Name
City, State

Presented by
Producer Name



Your agreement structure: Entity purchase

The Agreement is drafted as an entity purchase buy-sell arrangement upon the death of a business owner. Under this entity purchase buy-sell plan design, the business entity, as opposed to the surviving business owners, is the purchaser of a deceased owner's interest.



Comments:

- An entity purchase buy-sell arrangement provides the simplicity of only one life insurance and/or disability buy-out policy on the life of each business owner. This is an advantage over a cross purchase buy-sell design when there are more than two business owners.
- Under an entity purchase arrangement, life insurance policies are owned by the business entity, and the policy owner is also the beneficiary. Entity-owned policies would be subject to the creditors of the business. However, the policies would not be subject to the personal creditors of the business owners.
- Most states have laws that address the conditions under which a corporate redemption may occur. Often, these statutes relate to the level of corporate surplus present at the time a stock redemption is to occur. Since the timing of a stock redemption may be unpredictable, life and disability insurance contracts may be helpful to the business owners in facilitating the redemption.

5

For financial professional use only. Not for distribution to the public.

Business valuation/Buy-sell review

Buy-sell agreement triggers

- Death
- Permanent disability
- Retirement
- Divorce
- Personal bankruptcy
- Termination of employment
- Loss of professional license
- Transfer of interest through operation of law

For financial professional use only. Not for distribution to the public.



Business valuation/Buy-sell review

Defining a purchase price for the agreement

- Book value
- Agreed or stated value
- Appraisal
- Formula-driven value
- Purchase price linked to life insurance

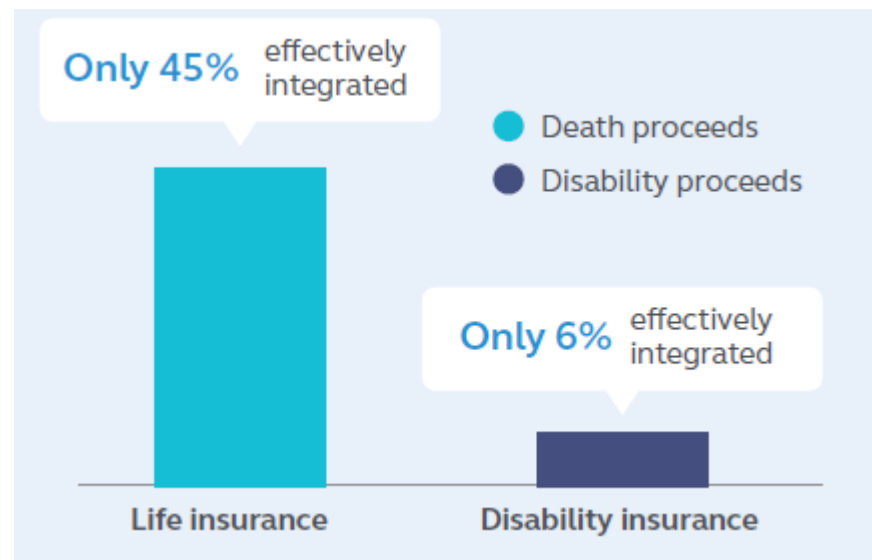
For financial professional use only. Not for distribution to the public.



Business valuation/Buy-sell review

How can you help?

Offer a Buy-Sell Review to make sure your client's agreement terms match their funding source.



Source: Review of 1,485 buy-sell reviews by Principal Financial Group®, January 1, 2011 - January 31, 2017.

For financial professional use only. Not for distribution to the public.



Business valuation & buy-sell review

Just 3 easy questions to open a business case!



Gather this information and submit this form along with the most recent **three years of financials**.

Which proposal(s) are you requesting? Buy-Sell Review Informal Business Valuation (see front for qualifications)

1. Business name: _____

2. Number of business owners: 1 2 3 4+

3. Type of business entity and tax status:
 Corporation
 Taxed as: C corporation S corporation
 LLC
 Taxed as: Partnership Corporation
 S corporation
 Partnership
 Sole proprietorship
*If operating between the lines include an internal balance sheet or business sales and business

4. Owner(s) Name: _____ DOB: _____ Ownership %: _____

5. Children of owners: _____ Number in business: _____ Outside of business: _____

6. Current estimated business value: _____

7. Annual growth rate: _____ %

8. If there is no written buy-sell agreement, to whom do you intend to sell? Family Key employee Third party Co-owner

9. Names of the following professional advisors:
 Attorney: _____
 Accountant: _____

10. Attach the most recent three years of income statements and balance sheets or three full years of company tax returns.

11. Issue state: _____

12. Total number of employees: 1-9 10-50 51-200 201-500 501+

13. Years the business has been operating? _____

14. Do you have a buy-sell agreement? Yes No
 If yes, provide a copy of the agreement.

15. Attach the most recent three years of financials.

Proposals will NOT be provided without an indication of a valid Principal agency or BGA office # and/or bank/ATM relationship.

Producer and proposal delivery information

Advisor name: _____ Principal wholesaler: _____
 01P 01P 01P 01P 01P

Phone number: _____
 Email address: _____

Bank/ATM relationship: _____ Should anyone else (Producer or BGA) receive the proposal?
 Name: _____
 Principal agency/BGA office name and number: _____
 Email address: _____

Submit form via email to case-requests@principal.com. Form must be completed PDF and all necessary documents. Please allow 7-7 business days for proposal and up to 10-16 days for a Buy-Sell Review. Questions can be sent to help@principal.com or call 800-854-4278 (ext. 528) for LHA or option 2, 2 for Disability. Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50302-0201, principal.com. The subject matter in this communication is provided with the understanding that Principal is not rendering legal, accounting, or tax advice. You should consult with appropriate counsel or other advisors and/or insurers regarding legal, tax, or accounting obligations and requirements. Insurance products from Principal are issued by Principal National Life Insurance Company (located in New York) and Principal Life Insurance Company.

Not FDIC or NCUA insured Principal, Principal and symbol design and Principal Financial Group are trademarks and service marks of Principal Financial Services, Inc., a member of the Principal Financial Group.

May lose value • Not a deposit • Not bank or credit union guarantee
Not insured by any Federal government agency

SECURITIES: NY 000007 11/2008/0208/01 000007 PRINCIPAL FINANCIAL SERVICES, INC.

For financial professional use only. Not for distribution to the public.



Key employee retention and retirement



For financial professional use only. Not for distribution to the public.

Key employee retention and retirement

Recruit, reward, retain, and retire key employees

- Key employees affects the success of any organization
- Retirement income needs are particularly important to key employees

For financial professional use only. Not for distribution to the public.



Key employee retention and retirement

Solutions for **for-profit** organizations

- Deferred compensation plans:
 - Executive Nonqualified Excess PlanSM (defined contribution)
 - Executive Nonqualified Defined Benefit Plan
 - Principal[®] Select Reward Plan
 - Principal SERP SelectSM
- Bonus plans:
 - Principal Executive Bonus PlusSM
 - Principal S Owner PlusSM
 - Principal LLC BonusSM
 - Nonqualified Incentive Bonus Plan

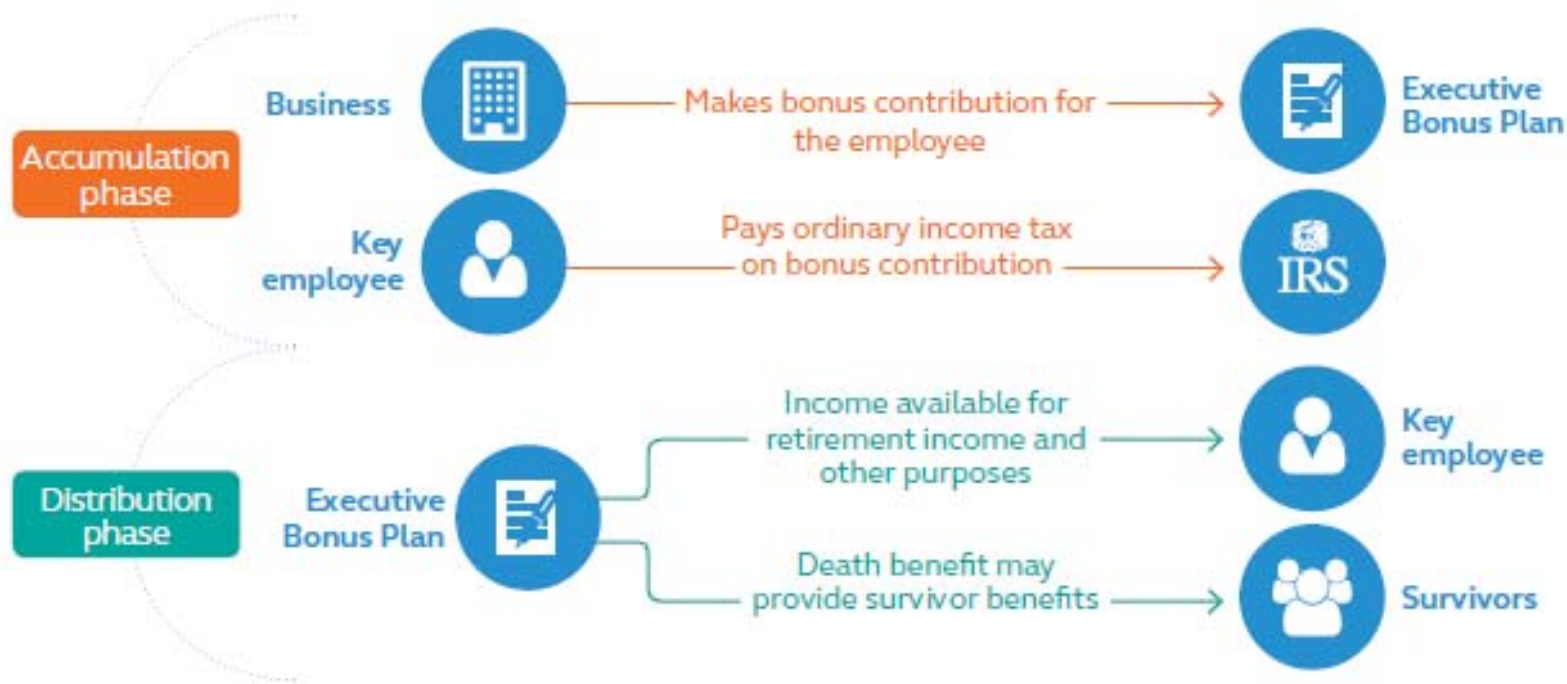
For financial professional use only. Not for distribution to the public.



Key employee retention and retirement

Executive Bonus Plan – how it works

For both for profit & tax-exempt organizations



For financial professional use only. Not for distribution to the public.

Key employee retention and retirement

Executive Bonus - for the business

| Benefits | Considerations |
|---|---|
| <ul style="list-style-type: none">• Easy to communicate and maintain due to simple and flexible plan design• Business receives a current tax deduction on bonuses contributed to the plan• Plan is exempt from annual reporting and ERISA | <ul style="list-style-type: none">• Asset is not corporate-owned• Each bonus paid reduces organization cash flow |

For financial professional use only. Not for distribution to the public.



Key points – bonus plans

For the company

- With a strong job market, simple and effective retention plans become increasingly important
- Lower overall tax burden for company makes more funding available for executive benefits
- Company out-of-pocket cost is less when using double bonus design due to employee lower tax rates

For the employee

- Less taxes are due on the bonus than in previous years
- Tax-deferred growth, tax-advantaged distributions and tax-free death benefit make life insurance an effective funding choice
- Many employees may pay lower tax rates on income today than after 2025 (due to scheduled sunset)



Key employee retention and retirement

SERP Select Plan – how it works



For financial professional use only. Not for distribution to the public.



Key employee retention and retirement

SERP Select – for the business

| Benefits | Considerations |
|---|--|
| <ul style="list-style-type: none">• Cost-effective for attracting, retaining and rewarding key employees• Can select participants and control vesting• Generally provides tax-free key person protection to company | <ul style="list-style-type: none">• Tax deduction is deferred until benefit is paid• Subject to IRC 409A• Participants must meet underwriting and “Top Hat” requirements |

For financial professional use only. Not for distribution to the public.



Key points – SERP Select

For the company

- Lower overall tax burden for company makes more funding available for executive benefits
- Key person insurance & cost recovery for company may be available
- Elimination of corporate alternative minimum tax (AMT) makes life insurance more appealing

For the employee

- Employee will be taxed at the income tax rates in effect when the benefit is received, which may be different than current rates

Supplemental Owner Retirement Plan



Business Owner Retirement

Challenges a business owner faces

- Taking care of themselves vs. their employees
- The “traditional” retirement gap
- Converting the business value into retirement value

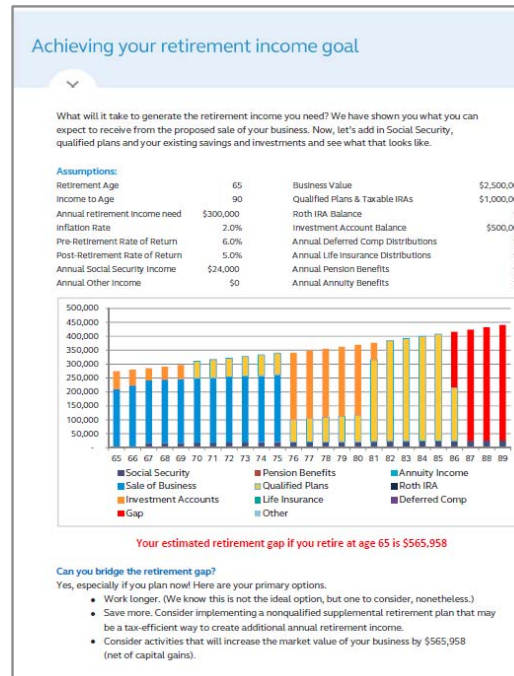
*There are 9 million business owners
with no retirement plan**

*U.S. Small Business Administration; www.sba.gov

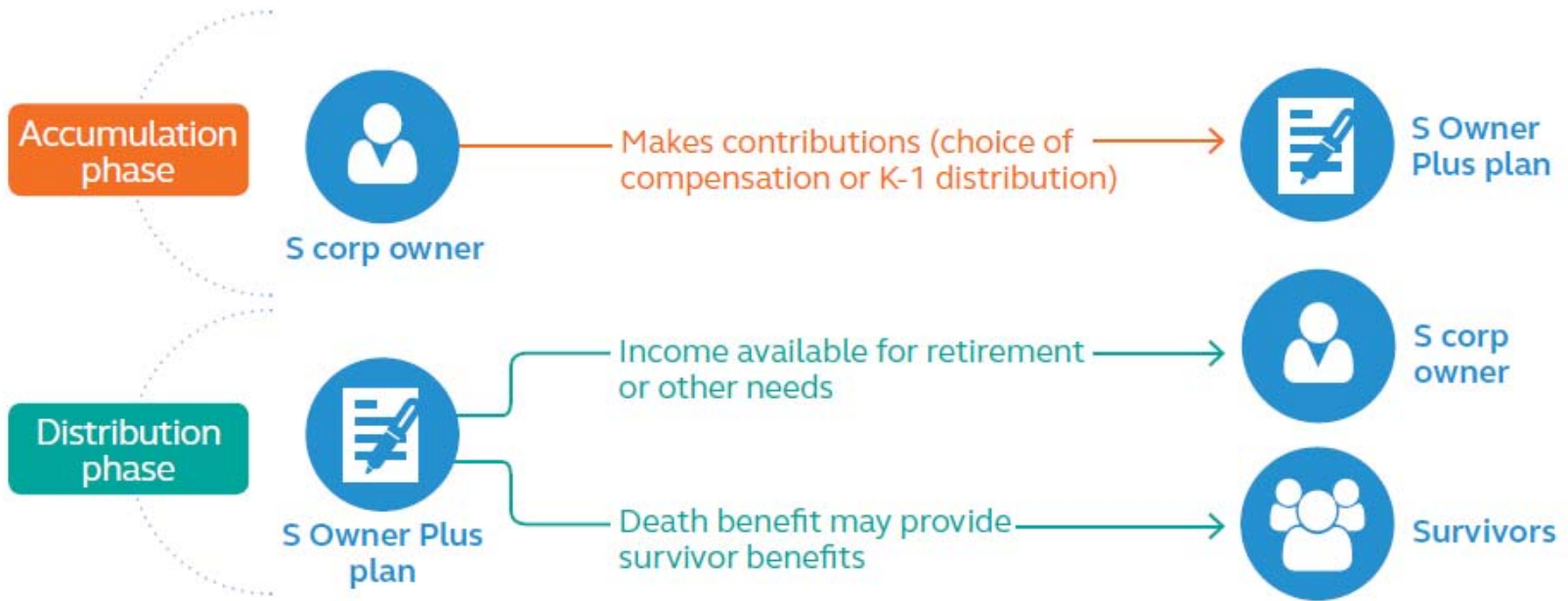


Business Owner Retirement

Business Owner Retirement Analysis



Principal S Owner PlusSM – how it works



For financial professional use only. Not for distribution to the public.



Principal S Owner Plus – for owners

| Benefits | Considerations |
|---|---|
| <ul style="list-style-type: none">• Save more – Limits on compensation and contributions don't apply.• Choose from contribution options – Take income as compensation or a K-1 distribution, allowing some payroll tax leverage. | <ul style="list-style-type: none">• Pay out distributions properly – If there's more than one owner, and K-1 distributions are used, distributions need to be in proportion to ownership.• Pay income tax now – Whether profits are distributed or retained for business expansion, the owner(s) are taxed at current ordinary income tax rates.• Need to be healthy – Must be able to qualify for life insurance. |

For financial professional use only. Not for distribution to the public.



When business clients turn to you, turn to us.

**Everything
you need in
one place.**

- Profiling and approach tools
- Technical expertise through Advanced Solutions
- Customized proposals with recommendations
- Business-focused products
- Unique underwriting programs
- Wholesale sales support
- Administrative services

For financial professional use only. Not for distribution to the public.



Questions?



For financial professional use only. Not for distribution to the public.

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0001

Insurance issued by Principal National Life Insurance Co. (except in NY) and Principal Life Insurance Co. Securities offered through Principal Securities, Inc., 800-247-9988, Member SIPC, and/or independent broker/dealers. Principal National, Principal Life and Principal Securities are members of the Principal Financial Group®, Des Moines, IA 50392.

No part of this presentation may be reproduced or used in any form or by any means, electronic or mechanical, including photocopying or recording, or by any information storage and retrieval system, without prior written permission from the Principal Financial Group®.

Principal, Principal and symbol design and Principal Financial Group are trademarks and service marks of Principal Financial Services, Inc., a member of the Principal Financial Group.

