ESOP repurchase obligation funding

Help protect your business and ESOP benefits.

Presented to:

Sample company

Presented by:

Producer Name
(123)123-4567
Produceremail@email.com

Table of contents

Plan overview 3

Plan design 5

Funding options 8

Administrative services 9

Next steps 10

You can trust Principal® 11

Proprietary and confidential

We appreciate the opportunity to prepare and present this ESOP repurchase obligation funding proposal.

The information contained in this proposal has been developed based on our years of knowledge and experience in working with business owners and employers. Rest assured that the information contained in this proposal will be kept strictly confidential.

This proposal was created by and is the proprietary property of Principal®. This material is provided for informational purposes only. It is presented with the understanding that Principal is not rendering legal, accounting, or tax advice. Please consult with your professional advisors to review your specific situation.

Proactive planning can be the key to your success.

Your company has implemented an employee stock ownership plan (ESOP). The last thing you want to see is the effectiveness of that ESOP become derailed by unplanned—or even planned—events. There are long-term planning strategies you can put in place to help protect your business and your employees.

With an ESOP, the company is required to repurchase the shares of departing or retiring employees who are vested participants in the plan. So, implementing an ESOP repurchase obligation funding strategy is one of the most efficient ways to help protect your business from both planned and unplanned exit events.

A funding strategy can help you:

- Reduce the risk that the cash required to repurchase shares will compete with cash needed for effectively running the business and investing in other opportunities.
- Avoid a negative impact to your company's financial decision making because of employee departures.
- Enable your company to achieve and maintain a more levelized cost for meeting this obligation.

WHAT TO EXPECT

Let's walk through the flexibility of this plan and how it can be tailored to fit your specific needs. You're in control of key decisions and determining next steps. So, this proposal will help you do that by covering the following areas:

Design. Look at the various obligation funding methods and choose the design that can help you accomplish your goals.

Financing. Decide which option best balances long- and short-term costs and benefits.

Support. Understand the valuable support services available to maintain this funding strategy.

Next steps. Review how to implement your strategy.

Before we dive into the details of designing your strategy, let's take a quick look at the ESOP repurchase obligation and forecasting your liability.

What is an ESOP repurchase obligation?

This is the liability a company incurs when vested participants are entitled to receive distributions from an ESOP. While publicly traded companies are market-traded, closely held companies must provide the funding necessary to repurchase shares from ESOP participants owed a distribution. This is an off-balance sheet liability that's not required to be booked on the company's financial statements, but it's generally in the best interest of the company to prepare for this impending liability.

These events will require the ESOP to repurchase participants' vested ESOP shares with cash:

- Retirement
- Death
- Disability
- Option to diversify[1]
- Terminations (voluntary and involuntary)

Other repurchase obligation events could include participant loans, hardship withdrawals, qualified domestic relations order (QDRO) payouts, and early diversification. Refer to your specific ESOP plan document to see if other events apply.

How much is your liability?

Companies often perform a repurchase obligation study to estimate their long-term liability. This forecasting study is a projection of the distributions required when employees retire, die, become disabled, diversify, or terminate employment.

Factors that may impact the calculation include:

- Participant demographics
- Participant balances
- Years of service
- ESOP loans
- Distribution policy

If you have provided us with a copy of your latest repurchase obligation study, it's included at the end of this proposal.

[1] Employees who have reached age 55 and have at least 10 years of participation must be permitted to begin diversifying their accounts. See IRC Sec. 401(a)(28).

Designing a strategy to fit your needs

You're in control of making an ESOP repurchase obligation funding strategy your own. Our role, in collaboration with your financial professional, is to help you consider the alternatives that might make sense for your specific organization.

STRATEGY ALTERNATIVES	BENEFITS AND CONSIDERATIONS
No funding Pay as you go from working capital or earnings.	• Simple • Future cash flow could be insufficient.
Debt Tap unused debt capacity, including lines of credit, term loans, or pay participants with a note.	• Costs spread out over time. • Interest charges increase costs. • Availability of credit is uncertain.
Assets owned by the ESOP Accumulate assets inside the ESOP through employer cash contributions, dividends, and S corporation distributions.	• ESOP trust assets are not accessible by company creditors. • Assets are permanently removed from company balance sheet and may not be used for other business purposes. • Assets are allocated to plan participants and paid out as the participants leave.
Assets owned by the company Accumulate assets in a sinking fund on the company's balance sheet.	• Assets are available for any business purpose. • Assets not protected from company creditors.

Many businesses can achieve positive returns by investing in their own business. However, ESOP companies have an additional obligation—to create the necessary liquidity to meet future repurchase requirements. Business operating assets, like equipment and buildings, are generally not liquid, and future cash flows can be unpredictable and insufficient at the exact time cash is needed. Therefore, developing a funding strategy may be important, not only to the ESOP, but to the financial well-being of your business.

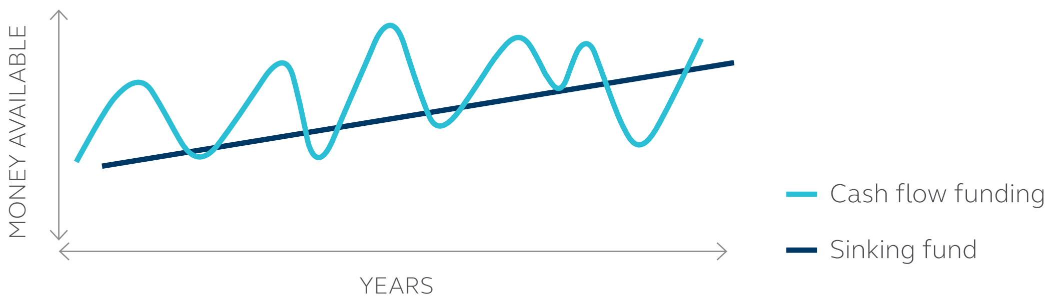
A sinking fund can proactively help address your liability

Let's take a closer look at setting aside dollars today to help meet cash needs in the future. There's value in creating a reserve in the event the repurchase obligation costs for a given year exceed cash availability. The timing of employee retirements, terminations, deaths, and disabilities is unpredictable — and so is the amount of cash needed for ESOP repurchase obligations. A sinking fund can help.

How does a sinking fund work?

You systematically set aside money over time to fund a future expense, in this case, repurchasing ESOP shares.

The sinking fund provides a pool of money for making distributions when there are repurchase obligations. Since cash flow can vary from month to month, a sinking fund may help the company "smooth out" its cash commitments to the ESOP repurchase obligation each year.



Sinking fund **benefits**

- Reduces and levelizes the cash flow required to repurchase shares in future years
- May be viewed positively by ESOP participants and trustee
- Used to finance the repurchase obligation and remains on the company's balance sheet
- Available for any corporate purpose

Sinking fund **considerations**

- Unprotected from creditor claims
- May be insufficient, and the company is ultimately responsible for fulfilling ESOP repurchase obligations

How much reserve should you establish?

The decision about how much to fund is a risk-management decision. Some companies maintain a reserve equal to approximately three to five years of the future projected ESOP liability. Other companies elect to prefund more. It's important to start building the sinking fund early, so assets have time to accumulate.

Considerations

- Is the intent of the company to increase, decrease, or stabilize ESOP ownership?
- What is the desired size of the reserve to be established?
- How much has the company set aside to date?
- What is the availability of cash on an annual basis?
- What other benefit plans does the company offer key employees?
- Does the company have commitments to other non-ESOP shareholders?
- How much cash flow is required to fund other current liabilities versus future ESOP liabilities?

Consider your answers to these questions as you review the **attached financial model** that summarizes funding strategy options for your company based on the information you have provided.

Funding your obligation

Being able to pay benefits to ESOP participants in the future is required. Any one of these three options (or a combination of some or all) can help you meet these funding obligations.

Unfunded. No specific assets are set aside to fund repurchases. Instead, benefits are paid from the company's cash flow.

Investments. Company contributions are invested in vehicles, such as stocks, bonds, CDs, or mutual funds.

Corporate-owned life insurance (COLI). The company purchases cash-value life insurance to pay future obligations. The company is the owner and beneficiary of the policies. Contributions are paid into life insurance policies—either fixed, indexed, or variable.

	UNFUNDED	INVESTMENTS	COLI
Benefits	• Simple • No asset to manage.	• Direct crediting of earnings • Flexible contributions • No medical underwriting. • Investments reported on the corporate balance sheet. • Investments available for any company purpose.	• Earnings accumulate tax-deferred. • Flexible contributions • Key person insurance and cash values are available for any company purpose. • Cash surrender values are an asset on the corporate balance sheet. • Life insurance policies may selectively cover those ESOP participants with large account balances. • Income tax-free death benefit may provide cost recovery.
Considerations	• No future assets set aside to pay benefits. • Liquidity risk • Repurchase requirements can be volatile. • Cash may not be available, potentially requiring debt and other financing.	• Earnings may be taxable. • Investment fees and expenses • No death benefit.	• Must qualify for insurance and meet underwriting guidelines • Cost of insurance, policy fees, and expenses • Insured employees must sign a Notice and Consent form (IRC Section 101(j)).

To help you better weigh your options, we've provided a detailed financial model at the end of this proposal.

Investing in mutual funds, variable annuities or variable life insurance involves risk, including the potential for loss of principal.

Guarantees are based on the claims-paying ability of the issuing insurance organization.

Focused on your strategy's details—today and tomorrow

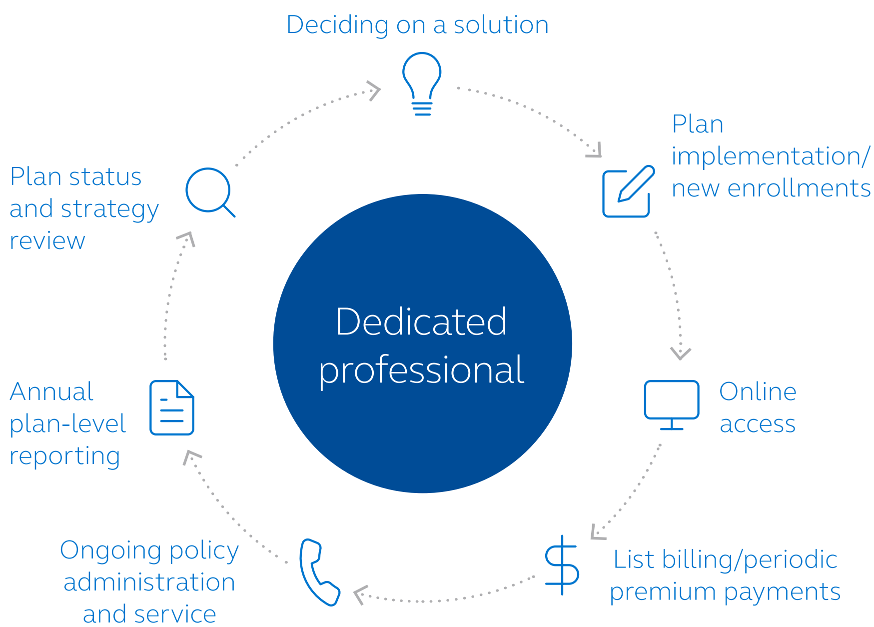
It takes a lot of work to run your business. We understand that you may not have time to think about the details associated with administering your ESOP repurchase obligation funding strategy. That's why we're here. We offer the expertise and service to help you with implementation and administration.

Experience

When implementing this strategy, it's helpful to work with a provider that has the experience to understand how to turn your objectives into a successful strategy. Our team of business solutions professionals will consult with you and your financial professional to determine the right solution for your organization.

Service

We know you need to spend your time focusing on your business. That's why we focus on the details, so you don't have to. Our plan administrative services professionals assist you with the day-to-day aspects of your strategy.



Walking you through a successful implementation

Helping you tailor an effective ESOP repurchase obligation funding strategy to help meet your specific needs and goals is a top priority. Once you're comfortable with the design of your strategy and the supporting funding, attention will shift to putting the strategy in place using the Principal platform.

As everyone works together to successfully implement your funding strategy, our goal is to deliver a positive experience. Here's what you can expect:

Next steps

1 Strategy development

- Finalize design
- Confirm funding levels

2 Application process

- Educate participants on the funding program
- Collect applications and signatures, if applicable

3 Administrative set-up

- Finalize underwriting, if applicable
- Enter plan information into recordkeeping systems

4 Implementation

- Transfer funds
- Issue new insurance policies, if applicable

An industry leader in your corner

Everything you need in one place

Once you decide what is right for you, we'll bring our experience and resources to the table to help you execute your strategy. Everything you need to successfully implement and maintain it is available at Principal:

- Innovative plan design
- Multiple funding options
- Efficient plan implementation
- Dedicated plan administrative services

You can trust our expertise and leadership

We've been providing administrative services for business solutions for more than 30 years, making it a priority to understand where you want to be and how you plan to get there. This means you'll get expertise and innovative ideas when you need them to make your financial progress possible.

A member of the FORTUNE 500®, we have $714 billion in total assets under management[1] and serve clients worldwide of all income and portfolio sizes.

- Serve 1,100+ ESOP[2]
- No. 1 ESOP recordkeeper by number of plans[2]
- ESOP clients in all 50 states, plus Washington D.C.[3]
- Provide services to 40 of the nation's Top 100 largest majority employee-owned companies[4]

[1] 2022 Company Profile. Data for the trailing 12 months ended December 31, 2021.

[2] PLANSPONSOR Recordkeeping Survey, July 2021.

[3] As of June 30, 2021, including ESOPs and KSOPs.

[4] According to The Employee Ownership 100 published by the National Center for Employee Ownership (NCEO), October 2021.

Principal®

principal.com

Insurance products issued by Principal National Life Insurance Company (except in NY) and Principal Life Insurance Company®. Principal Funds, Inc., is distributed by Principal Funds Distributor, Inc. Securities offered through Principal Securities, Inc., Member SIPC, and/or independent broker/dealers. Referenced companies are members of the Principal Financial Group®, Des Moines, IA 50392.

Before investing, carefully consider the investment option objectives, risks, charges, and expenses. Contact a financial professional or visit principal.com for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.

Investing in variable life insurance involves risk, including the loss of principal. Investors should consider their risk tolerance and time horizon when selecting the life insurance product to meet their needs.

Variable life insurance has annual fees and expenses and has both life insurance-related charges and investment management fees. See the variable life insurance prospectus for complete details on fees and expenses.

The subject matter in this communication is educational only and provided with the understanding that Principal® is not rendering legal, accounting, investment, or tax advice. You should consult with appropriate counsel, financial professionals, and other advisors on all matters pertaining to legal, tax, investment, or accounting obligations and requirements.

Key assumptions

Your company

- Your corporate structure is a S corporation
- The ESOP owns 50% of the company
- 35% busines tax bracket (Federal and State)
- 5% cost of money on cash (4% after-tax rate used for the NPV)

Corporate-owned life insurance

- 5.77% long-term net investment earnings rate
- Life expectancy for the insured(s) is age 85

Repurchase liability forecast

This example displays a 20-year Employee Stock Ownership Plan (ESOP) repurchase liability forecast with $6,500,000 in obligations.

Based on management study dated 12/31/2022*

Year	Year	Projected repurchase obligation	Percent of total
1	2024	$ -	0.00%
2	2025	-	0.03%
3	2026	-	0.07%
4	2027	-	0.52%
5	2028	-	0.34%
6	2029	-	0.06%
7	2030	-	0.08%
8	2031	79,267	0.55%
9	2032	104,883	1.51%
10	2033	261,475	4.97%
11	2034	586,228	5.79%
12	2035	592,797	6.10%
13	2036	561,383	7.30%
14	2037	612,283	6.26%
15	2038	576,992	13.13%
16	2039	574,167	9.44%
17	2040	609,508	7.98%
18	2041	631,625	9.20%
19	2042	603,192	7.46%
20	2043	706,200	19.21%
	Total	**$ 6,500,000**	**100%**

First 10 years
$445,625
6.86%

Second 10 years
$6,054,375
93.14%

* The referenced "management study" was provided by the client. This study provides a projection of the potential liability the ESOP plan may create for the company, over the next 20 years.

ESOP companies have an obligation to create liquidity to meet future repurchase requirements. Business operating assets, like equipment and buildings, are generally not liquid, and future cash flows can be unpredictable and insuffcient at the exact time cash is needed. Many find implementing a funding strategy allows them to create a reserve in the event repurchase obligation costs for a given year exceed cash availability.

Let's look at two funding strategy options.

Unfunded

If you did nothing to save, you can think of this as a "pay-as-you-go" system. As repurchase payments come due, you use your company cash at that time to pay the obligation.

While you are not required to set aside assets, not doing so could lead to problems in the future. It leaves the liability down the road for future management to address.

Key features

Advantage: it's simple, you keep cash to help grow the company.

Consideration: you should watch your future liquidity and cost of borrowing.

Year	Year	Projected repurchase obligation	Repurchase payments paid from company cash	Net cost to company
1	2024	$ -	$ -	$ -
2	2025	-	-	-
3	2026	-	-	-
4	2027	-	-	-
5	2028	-	-	-
6	2029	-	-	-
7	2030	-	-	-
8	2031	79,267	79,267	79,267
9	2032	104,883	104,883	104,883
10	2033	261,475	261,475	261,475
11	2034	586,228	586,228	586,228
12	2035	592,797	592,797	592,797
13	2036	561,383	561,383	561,383
14	2037	612,283	612,283	612,283
15	2038	576,992	576,992	576,992
16	2039	574,167	574,167	574,167
17	2040	609,508	609,508	609,508
18	2041	631,625	631,625	631,625
19	2042	603,192	603,192	603,192
20	2043	706,200	706,200	706,200

Total net cost to company	$ 6,500,000
Net present value at 4% (NPV)	$ 3,610,274

Corporate-owned life insurance (COLI)

Another option is to save with corporate-owned life insurance.
The life insurance policy can potentially provide tax-deferred investment growth.

The company can use the policy cash values to fund its repurchase obligations. When a death occurs, the company can use the policy's proceeds to repurchase a deceased participant's interest. The policy proceeds can also be used for cost recovery or for the company's general purposes.

Key features

Advantage: you can potentially get tax-favorable growth and future death benefits.

Consideration: you pay policy costs

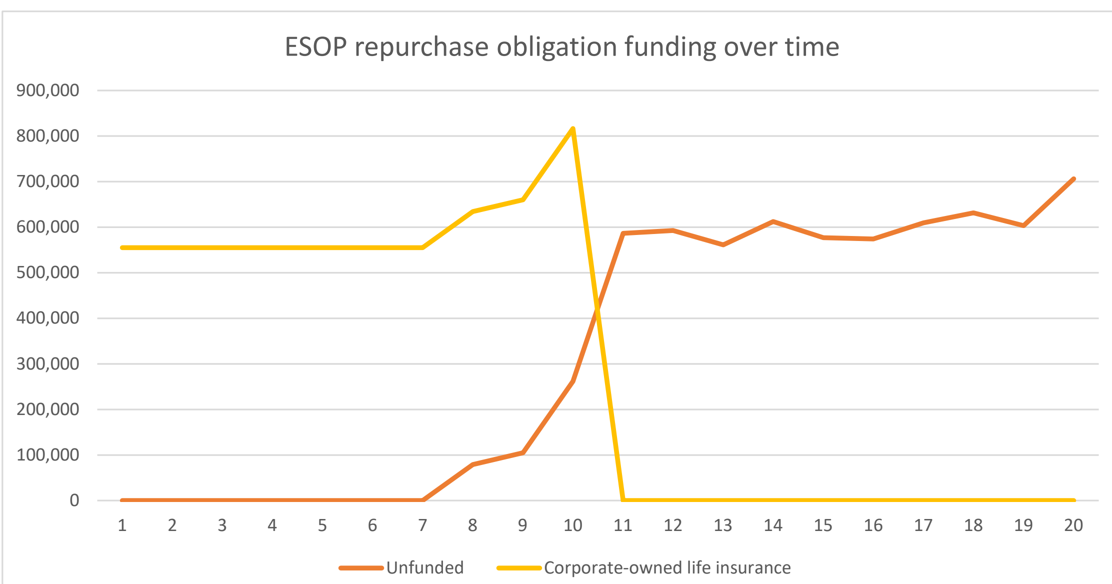
Year	Projected repurchase obligation	Life insurance premiums paid	Life insurance withdrawals & loans	Repurchase payments paid from company cash	Net cost to company	Life insurance cash surrender values*	Life insurance death benefits*
2024	$ -	$ 555,000	$ -	$ -	$ 555,000	$ 256,331	$ 7,988,681
2025	-	555,000	-	-	555,000	778,171	8,504,248
2026	-	555,000	-	-	555,000	1,328,267	9,048,303
2027	-	555,000	-	-	555,000	1,909,504	9,623,266
2028	-	555,000	-	-	555,000	2,523,686	10,231,407
2029	-	555,000	-	-	555,000	3,177,374	10,874,639
2030	-	555,000	-	-	555,000	3,887,463	11,554,987
2031	79,267	555,000	-	79,267	634,267	4,648,892	12,274,593
2032	104,883	555,000	-	104,883	659,883	5,454,168	13,035,723
2033	261,475	555,000	-	261,475	816,475	6,310,618	13,035,723
2034	586,228	-	(586,228)	-	-	6,096,668	12,449,496
2035	592,797	-	(592,797)	-	-	5,830,444	11,856,699
2036	561,383	-	(561,383)	-	-	5,581,109	11,295,315
2037	612,283	-	(612,283)	-	-	5,264,622	10,683,033
2038	576,992	-	(576,992)	-	-	4,965,853	10,106,040
2039	574,167	-	(574,167)	-	-	4,651,896	9,531,873
2040	609,508	-	(609,508)	-	-	4,281,884	8,922,366
2041	631,625	-	(631,625)	-	-	3,865,824	8,290,740
2042	603,192	-	(603,192)	-	-	3,452,944	7,687,548
2043	706,200	-	(706,200)	-	-	2,905,954	6,977,333

Total net cost to company	$ 5,995,625
Less: death benefits at age 85**	$ (6,801,498)
Total net benefit to company	$ 805,873
Net present value at 4% (NPV)	$ 3,086,195

*Life insurance cash surrender values and death benefits are based on a 5.77% net rate of return.
** This is the total assumed death benefit, if all participants were to die at age 85. Please see supporting illustrations for further detail.

Comparison of funding methods

Year	Annual net cost to fund		Assets		
	Unfunded	Corporate-owned life insurance	Unfunded	Life insurance cash surrender values*	Life insurance death benefits*
2024	$ -	$ 555,000	$ -	$ 256,331	$ 7,988,681
2025	-	555,000	-	778,171	8,504,248
2026	-	555,000	-	1,328,267	9,048,303
2027	-	555,000	-	1,909,504	9,623,266
2028	-	555,000	-	2,523,686	10,231,407
2029	-	555,000	-	3,177,374	10,874,639
2030	-	555,000	-	3,887,463	11,554,987
2031	79,267	634,267	-	4,648,892	12,274,593
2032	104,883	659,883	-	5,454,168	13,035,723
2033	261,475	816,475	-	6,310,618	13,035,723
2034	586,228	-	-	6,096,668	12,449,496
2035	592,797	-	-	5,830,444	11,856,699
2036	561,383	-	-	5,581,109	11,295,315
2037	612,283	-	-	5,264,622	10,683,033
2038	576,992	-	-	4,965,853	10,106,040
2039	574,167	-	-	4,651,896	9,531,873
2040	609,508	-	-	4,281,884	8,922,366
2041	631,625	-	-	3,865,824	8,290,740
2042	603,192	-	-	3,452,944	7,687,548
2043	706,200	-	-	2,905,954	6,977,333
Total net cost to company	$ 6,500,000	$ 5,995,625			
Net present value at 4%	$ 3,610,274	$ 3,086,195			



*Life insurance cash surrender values and death benefits are based on a 5.77% net rate of return.

Comparison of funding methods

Both funding strategies can help you achieve the goal of asset accumulation for your ESOP funding strategy. This gives you and your participants greater confidence in the sustainability of the benefit program. Regardless of your funding choice, your participant's benefits are the same.

Below is a recap of the asset accumulation options, including the numbers from this demonstration.

	Key features	
	Unfunded	**Corporate-owned life insurance**
	• Pay as you go	• Earnings accumulate tax-deferred • Tax free distributions • Tax free corporate-owned life insurance death benefit. (subject to rules) • Cost recovery
Key numbers	**$6,500,000** 20-year repurchase obligation **$0** No death benefits	**$6,500,000** 20-year repurchase obligation **$7,500,000** Initial death benefits
Total net cost to company	**$6,500,000**	**$5,995,625**
Less: death benefits	**$0** No death benefits	**$6,801,498** Death benefits at mortality (Age 85)**
Equals	**$6,500,000** Net cost to company **$3,610,274** Net present value at 4%	**$805,873** Total net benefit to company **$3,086,195** Net present value at 4%

*Life insurance cash surrender values and death benefits are based on a 5.77% net rate of return.
** This is the total assumed death benefit, if all participants were to die at age 85. Please see supporting illustrations for further detail.

principal.com

Insurance products issued by Principal National Life Insurance Company (except in NY) and Principal Life Insurance Company® . Principal Funds, Inc ., is distributed by Principal Funds Distributor, Inc . Securities offered through Principal Securities, Inc ., Member SIPC, and/or independent broker/dealers . Referenced companies are members of the Principal Financial Group®, Des Moines, IA 50392 .

Before investing, carefully consider the investment option objectives, risks, charges, and expenses. Contact a financial professional or visit principal.com for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.

Investing in variable life insurance involves risk, including the loss of principal . Investors should consider their risk tolerance and time horizon when selecting the life insurance product to meet their needs .

Variable life insurance has annual fees and expenses and has both life insurance-related charges and investment management fees . See the variable life insurance prospectus for complete details on fees and expenses .

The subject matter in this communication is educational only and provided with the understanding that Principal® is not rendering legal, accounting, investment, or tax advice . You should consult with appropriate counsel, financial professionals, and other advisors on all matters pertaining to legal, tax, investment, or accounting obligations and requirements .

The following illustration is a composite of three individual policies that display how an Employee Stock Ownership Plan (ESOP) repurchase obligation funding strategy can help protect your business.

Definition of Terms

February 01, 2024

Composite of Three Policies

Definition of terms used in this illustration:

Annualized Premium Outlay
Sum of the premiums due during the policy year.

Net Surrender Value
The net accumulated value less surrender charges and policy loans. Amount of cash you would receive if you were to surrender the policy.

Net Accumulated Value
The sum of all premiums and credited interest less expenses, cost of insurance, withdrawals, loans and loan interest.

Net Death Benefit
The amount paid to the policyowner's beneficiary upon the death of the insured.

Guaranteed Values
Values are based on a guaranteed minimum annualized interest rate of 0.00%, guaranteed maximum cost of insurance rates, and guaranteed maximum expense charges.

Current (Non Guaranteed)
Values are based on the current annualized interest rate*, current cost of insurance rates and current expense charges.

Partial Surrenders and Loans
Any partial surrenders, loans and loan repayments. (See Policy Illustration)

Net Outlay
Your total annual out-of-pocket expense. (See Policy Illustration)<>

February 01, 2024

Composite of Three Policies

Guaranteed at 0.00%						
Year	Annualized Premium Outlay	Partial Surrenders/ Loans	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit
1	555,000.00	0	555,000.00	137,803	370,153	7,870,153
2	555,000.00	0	555,000.00	509,256	735,332	8,235,332
3	555,000.00	0	555,000.00	875,401	1,095,436	8,595,436
4	555,000.00	0	555,000.00	1,236,530	1,450,292	8,950,292
5	555,000.00	0	555,000.00	1,592,007	1,799,728	9,299,728
	2,775,000.00		**2,775,000.00**			
6	555,000.00	0	555,000.00	1,946,157	2,143,423	9,643,423
7	555,000.00	0	555,000.00	2,313,609	2,481,134	9,981,134
8	555,000.00	0	555,000.00	2,686,846	2,812,547	10,312,547
9	555,000.00	0	555,000.00	3,055,798	3,137,353	10,637,353
10	555,000.00	0	555,000.00	3,425,225	3,457,057	10,637,352
	5,550,000.00		**5,550,000.00**			
11	0.00	586,228	-586,227.96	2,748,642	2,748,642	10,051,125
12	0.00	592,797	-592,796.88	2,038,758	2,038,758	9,458,328
13	0.00	561,383	-561,382.92	1,364,411	1,364,411	8,896,944
14	0.00	612,283	-612,282.96	642,677	642,677	8,284,662
15	0.00	576,992	-576,992.16	0	0	0
	5,550,000.00		**2,620,317.12**			

February 01, 2024

Composite of Three Policies

			Alternate Scale (Non Guaranteed) at a rate of 4.60%				Current (Non Guaranteed) Based on premium allocation and interest rate tables			
Year	Annualized Premium Outlay	Partial Surrenders/ Loans	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit
1	555,000.00	0	555,000.00	250,661	483,011	7,983,011	555,000.00	256,331	488,681	7,988,681
2	555,000.00	0	555,000.00	760,860	986,936	8,486,936	555,000.00	778,171	1,004,248	8,504,248
3	555,000.00	0	555,000.00	1,292,755	1,512,791	9,012,791	555,000.00	1,328,267	1,548,303	9,048,303
4	555,000.00	0	555,000.00	1,848,592	2,062,354	9,562,354	555,000.00	1,909,504	2,123,266	9,623,266
5	555,000.00	0	555,000.00	2,429,478	2,637,199	10,137,199	555,000.00	2,523,686	2,731,407	10,231,407
	2,775,000.00		**2,775,000.00**				**2,775,000.00**			
6	555,000.00	0	555,000.00	3,041,224	3,238,489	10,738,489	555,000.00	3,177,374	3,374,639	10,874,639
7	555,000.00	0	555,000.00	3,699,915	3,867,439	11,367,439	555,000.00	3,887,463	4,054,987	11,554,987
8	555,000.00	0	555,000.00	4,399,622	4,525,324	12,025,324	555,000.00	4,648,892	4,774,593	12,274,593
9	555,000.00	0	555,000.00	5,131,917	5,213,472	12,713,472	555,000.00	5,454,168	5,535,723	13,035,723
10	555,000.00	0	555,000.00	5,903,517	5,935,349	12,713,472	555,000.00	6,310,618	6,342,450	13,035,723
	5,550,000.00		**5,550,000.00**				**5,550,000.00**			
11	0.00	586,228	-586,227.96	5,599,462	5,599,462	12,127,245	-586,227.96	6,096,668	6,096,668	12,449,496
12	0.00	592,797	-592,796.88	5,241,340	5,241,340	11,534,448	-592,796.88	5,830,444	5,830,444	11,856,699
13	0.00	561,383	-561,382.92	4,898,197	4,898,197	10,973,064	-561,382.92	5,581,109	5,581,109	11,295,315
14	0.00	612,283	-612,282.96	4,486,205	4,486,205	10,360,782	-612,282.96	5,264,622	5,264,622	10,683,033
15	0.00	576,992	-576,992.16	4,090,341	4,090,341	9,783,789	-576,992.16	4,965,853	4,965,853	10,106,040
	5,550,000.00		**2,620,317.12**				**2,620,317.12**			
16	0.00	574,167	-574,166.88	3,677,548	3,677,548	9,209,622	-574,166.88	4,651,896	4,651,896	9,531,873
17	0.00	609,508	-609,508.08	3,207,166	3,207,166	8,600,115	-609,508.08	4,281,884	4,281,884	8,922,366
18	0.00	631,625	-631,625.04	2,689,553	2,689,553	7,968,489	-631,625.04	3,865,824	3,865,824	8,290,740
19	0.00	603,192	-603,191.88	2,173,942	2,173,942	7,365,297	-603,191.88	3,452,944	3,452,944	7,687,548
20	0.00	710,215	-706,200.12	1,523,645	1,523,645	6,655,082	-706,200.12	2,905,954	2,905,954	6,977,333
	5,550,000.00		**-504,374.88**				**-504,374.88**			
21	0.00	10,168	0.00	1,564,441	1,564,441	6,644,914	0.00	3,054,520	3,054,520	6,967,165
22	0.00	10,371	0.00	1,603,707	1,603,707	6,634,543	0.00	3,210,084	3,210,084	6,956,794
23	0.00	10,579	0.00	1,641,089	1,641,089	6,623,965	0.00	3,373,108	3,373,108	6,946,216
24	0.00	10,790	0.00	1,676,135	1,676,135	6,613,175	0.00	3,544,079	3,544,079	6,935,426
25	0.00	11,006	0.00	1,708,170	1,708,170	6,602,169	0.00	3,723,443	3,723,443	6,924,420
	5,550,000.00		**-504,374.88**				**-504,374.88**			
26	0.00	11,226	0.00	1,736,283	1,736,283	6,590,943	0.00	3,911,634	3,911,634	6,913,194
27	0.00	11,451	0.00	1,759,291	1,759,291	6,579,492	0.00	4,109,108	4,109,108	6,901,743
28	0.00	11,680	0.00	1,775,910	1,775,910	6,567,812	0.00	4,316,507	4,316,507	6,890,063
29	0.00	11,913	0.00	1,784,579	1,784,579	6,555,899	0.00	4,534,605	4,534,605	6,878,150
30	0.00	12,151	0.00	1,783,507	1,783,507	6,543,748	0.00	4,764,420	4,764,420	6,865,999
	5,550,000.00		**-504,374.88**				**-504,374.88**			

February 01, 2024

Composite of Three Policies

			Alternate Scale (Non Guaranteed) at a rate of 4.60%				Current (Non Guaranteed) Based on premium allocation and interest rate tables			
Year	Annualized Premium Outlay	Partial Surrenders/ Loans	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit
31	0.00	12,394	0.00	1,770,620	1,770,620	6,531,353	0.00	5,007,272	5,007,272	6,853,604
32	0.00	12,642	0.00	1,743,552	1,743,552	6,518,711	0.00	5,264,887	5,264,887	6,840,962
33	0.00	12,895	0.00	1,699,498	1,699,498	6,505,816	0.00	5,539,460	5,539,460	6,828,067
34	0.00	13,153	0.00	1,635,129	1,635,129	6,492,663	0.00	5,833,795	5,833,795	6,814,914
35	0.00	13,416	0.00	1,546,520	1,546,520	6,479,247	0.00	6,151,476	6,151,476	6,801,498
	5,550,000.00		**-504,374.88**				**-504,374.88**			
36	0.00	13,684	0.00	1,428,873	1,428,873	6,465,562	0.00	6,497,049	6,497,049	6,856,797
37	0.00	13,958	0.00	1,269,056	1,269,056	6,451,604	0.00	6,872,763	6,872,763	7,251,994
38	0.00	14,237	0.00	1,058,086	1,058,086	6,437,367	0.00	7,267,736	7,267,736	7,667,428
39	0.00	14,522	0.00	784,144	784,144	6,422,844	0.00	7,682,543	7,682,543	8,103,702
40	0.00	14,813	0.00	432,408	432,408	6,408,032	0.00	8,117,741	8,117,741	8,561,400
	5,550,000.00		**-504,374.88**				**-504,374.88**			
41	0.00	15,109	0.00	0	0	0	0.00	8,573,866	8,573,866	9,041,087
42	0.00	15,411					0.00	9,059,037	9,059,037	9,452,837
43	0.00	15,719					0.00	9,576,940	9,576,940	9,888,298
44	0.00	16,034					0.00	10,132,164	10,132,164	10,351,162
45	0.00	16,354					0.00	10,730,488	10,730,488	10,846,133
	5,550,000.00		**-504,374.88**				**-504,374.88**			
46	0.00	16,681					0.00	11,362,559	11,362,559	11,484,692
47	0.00	17,015					0.00	12,028,767	12,028,767	12,157,732
48	0.00	17,355					0.00	12,730,483	12,730,483	12,866,639
49	0.00	17,702					0.00	13,469,109	13,469,109	13,612,828
50	0.00	18,056					0.00	14,246,142	14,246,142	14,397,812
	5,550,000.00		**-504,374.88**				**-504,374.88**			
51	0.00	18,418					0.00	15,063,202	15,063,202	15,223,227
52	0.00	18,786					0.00	15,921,988	15,921,988	16,090,789
53	0.00	19,162					0.00	16,824,006	16,824,006	17,002,019
54	0.00	19,545					0.00	17,770,728	17,770,728	17,958,403
55	0.00	19,936					0.00	18,763,704	18,763,704	18,961,509
	5,550,000.00		**-504,374.88**				**-504,374.88**			
56	0.00	20,334					0.00	19,804,602	19,804,602	20,013,018
57	0.00	20,741					0.00	20,893,516	20,893,516	21,113,029
58	0.00	21,156					0.00	22,032,034	22,032,034	22,263,144
59	0.00	21,579					0.00	23,222,027	23,222,027	23,465,253
60	0.00	22,011					0.00	24,465,005	24,465,005	24,720,881
	5,550,000.00		**-504,374.88**				**-504,374.88**			

February 01, 2024

Composite of Three Policies

			Alternate Scale (Non Guaranteed) at a rate of 4.60%				Current (Non Guaranteed) Based on premium allocation and interest rate tables			
Year	Annualized Premium Outlay	Partial Surrenders/ Loans	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit	Net Outlay	Net Surrender Value	Net Accumulated Value	Net Death Benefit
61	0.00	22,451					0.00	25,763,386	25,763,386	26,032,470
62	0.00	22,900					0.00	27,121,590	27,121,590	27,404,485
63	0.00	23,358					0.00	28,542,236	28,542,236	28,839,571
64	0.00	23,825					0.00	30,028,174	30,028,174	30,340,606
65	0.00	24,302					0.00	31,582,522	31,582,522	31,910,741
	5,550,000.00		**-504,374.88**				**-504,374.88**			
66	0.00	24,788					0.00	33,208,714	33,208,714	33,553,443
67	0.00	25,283					0.00	34,910,552	34,910,552	35,272,552
68	0.00	25,789					0.00	36,692,239	36,692,239	37,072,314
69	0.00	26,305					0.00	38,558,603	38,558,603	38,957,605
70	0.00	26,831					0.00	40,513,461	40,513,461	40,932,279
	5,550,000.00		**-504,374.88**				**-504,374.88**			
71	0.00	27,368					0.00	42,562,632	42,562,632	43,002,216
	5,550,000.00		**-504,374.88**				**-504,374.88**			

February 01, 2024

Composite of Three Policies

Below are hypothetical examples of the net loan cost (or gain) associated with taking a Standard Policy Loan or an Alternate Policy Loan.

- Example 1 assumes the use of a Standard Policy Loan, which is fully secured by the Loan Account. The Standard Policy Loan Interest Credited Rate is 3.00% and the Standard Policy Loan Interest Charged Rate is 3.00%.
- Examples 2 and 3 assume the use of an Alternate Loan, which is fully secured by the Policy's Accumulated Value. The Alternate Policy Loan Interest Charged Rate is 5.25%.

All three examples assume an Accumulated Value(AV) equal to $100,000 at the beginning of the loan period with a $10,000 loan, taken annually at the beginning of each year. In order to display the loan option's impact on values within the policy, no policy charges or surrender charges are assumed. Any assumed rates used may not be current - Please refer to the Features & Benefits section of your illustration for actual Standard/Alternate Policy Loan Charged/Credited rates.

Example 1: Standard Policy Loans (with an assumed 6.00% rate applied to the unloaned (net) AV)

Assumed rate applied to the policy's unloaned (net) accumulated value	6.00%
Assumed Standard Policy Loan Interest Credited Rate (yrs 11+)	3.00%
Assumed Standard Policy Loan Charged Rate (yrs 11+)	3.00%
Net Loan Cost	0.00%

Policy Year	Annual Loan Requested	Annual Loan Amount	Loan Credit	Loan Interest	Cumulative Net Loan Cost	Net Surrender Value
11	(10,000)	10,000	300	300	-	95,700
12	(10,000)	10,300	609	609	-	91,133
13	(10,000)	10,609	927	927	-	86,283
14	(10,000)	10,927	1,255	1,255	-	81,132
20	(10,000)	13,048	3,439	3,439	-	42,808

Under Current assumptions, the rate of interest credited to the policy's Loan Account equals the rate of interest charged for the loan after Poilcy Year 10.
Therefore, in this example the net cost of the Standard Loan is zero.
NOTE: The loan interest charged in years 1-10 will be greater than the loan interest credited.

Example 2: Alternate Policy Loans (with an assumed 3.00% rate applied to the AV)

Assumed rate applied to the policy's accumulated value	3.00%
Assumed Loan Interest Credited Rate	N/A
Assumed Alternate Policy Loan Charged Rate	5.25%
Net Loan Cost	2.25%

Policy Year	Annual Loan Requested	Annual Loan Amount	Loan Credit	Loan Interest	Cumulative Net Loan Cost	Net Surrender Value
11	(10,000)	10,000	300	525	225	93,000
12	(10,000)	10,525	616	1,078	687	85,565
13	(10,000)	11,078	948	1,659	1,398	77,670
14	(10,000)	11,659	1,298	2,271	2,371	69,289
20	(10,000)	15,849	3,818	6,681	14,545	7,135

You should consider the potential impact that each type of loan can have on your policy before taking a loan.
An alternate policy loan carries significantly more risk to the policy's performance due to the potential for a larger net cost for the loan. You should request an illustration from your representative to compare the loan types and show the effects of an underperforming policy. To determine if an alternate loan is the right choice for you, consider the impact to the policy if:

- The rate applied to the policy's accumulated value is lower than the Alternate Policy Loan Interest Charged Rate;
- The policy underperforms due to a market downturn;
- The Segment Modifiers are lowered; or
- Actual performance fluctuates instead of assuming a level illustrated rate.

Important reminder: A change of policy loan type is only permitted once per policy year and must be requested by you.
This document is not a recommendation and is not intended to be taken as a recommendation that you purchase this product.

February 01, 2024

Composite of Three Policies

With an Alternate Policy Loan, when the rate of interest charged for that loan exceeds the rate of interest credited to the policy's AV, the net cost of holding that loan can be substantial.

Example 3: Alternate Policy Loans (with an assumed 6.00% rate applied to the AV)	
Assumed rate applied to the policy's accumulated value	6.00%
Assumed Loan Interest Credited Rate	N/A
Assumed Alternate Policy Loan Charged Rate	5.25%
Net Loan Gain	0.75%

Policy Year	Annual Loan Requested	Annual Loan Amount	Loan Credit	Loan Interest	Cumulative Net Loan Gain	Net Surrender Value
11	(10,000)	10,000	600	525	75	96,000
12	(10,000)	10,525	1,232	1,078	229	91,835
13	(10,000)	11,078	1,896	1,659	466	87,499
14	(10,000)	11,659	2,596	2,271	790	82,986
20	(10,000)	15,849	7,635	6,681	4,848	51,828

With an Alternate Policy Loan, when the rate of interest credited to the policy's AV exceeds the rate of interest charged for that loan,the result would be a net loan gain to the policy.

You should consider the potential impact that each type of loan can have on your policy before taking a loan.
An alternate policy loan carries significantly more risk to the policy's performance due to the potential for a larger net cost for the loan. You should request an illustration from your representative to compare the loan types and show the effects of an underperforming policy. To determine if an alternate loan is the right choice for you, consider the impact to the policy if:

- The rate applied to the policy's accumulated value is lower than the Alternate Policy Loan Interest Charged Rate;
- The policy underperforms due to a market downturn;
- The Segment Modifiers are lowered; or
- Actual performance fluctuates instead of assuming a level illustrated rate.

Important reminder: A change of policy loan type is only permitted once per policy year and must be requested by you.
This document is not a recommendation and is not intended to be taken as a recommendation that you purchase this product.

Life Insurance Summary

February 01, 2024

Composite of Three Policies

First Name	Last Name	Current Age	Gender	Risk Class	Face Amount	Initial Premium	Annualized Premium	Product	Company
Client	1	50	Male	Pref NT	2,500,000	185,000.00	185,000.00	Indexed UL Accumulation II (01/2024)	1
Client	2	50	Male	Pref NT	2,500,000	185,000.00	185,000.00	Indexed UL Accumulation II (01/2024)	1
Client	3	50	Male	Pref NT	2,500,000	185,000.00	185,000.00	Indexed UL Accumulation II (01/2024)	1
					7,500,000	**555,000.00**	**555,000.00**		

1 - Principal National Life Insurance Company
2 - Principal Life Insurance Company

February 01, 2024

Composite of Three Policies

All guarantees are subject to the claims paying ability of the issuing insurance company.

Investing involves risk, including possible loss of principal.

Before investing, carefully consider the investment option objectives, risks, charges, and expenses. Contact a financial professional or visit principal.com for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.

Insurance products issued by Principal National Life Insurance Co. (except in NY) and Principal Life Insurance Co. Plan administrative services offered by Principal Life. Securities offered through Principal Securities, Inc., 800-247-1737, 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.

Not FDIC or NCUA insured. May lose value, no bank or credit union guarantee. Not a deposit. Not insured by any federal government entity.

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 on all matters pertaining to legal, tax, or accounting obligations and requirements.

Life Insurance Acknowledgments

February 01, 2024

Sample Company

Composite of Three Policies

- I have received copies of the composite illustration and policy illustrations and the prospectus and understand the illustrations are not a contract and does not project actual future values or investment results. The registered representative has told me that any non-guaranteed elements illustrated are not guaranteed, are subject to change, and could be either higher or lower. I understand the composite illustration and policy illustrations assume that the currently illustrated non-guaranteed elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown.

- I understand that the annual premium for each policy listed in the composite illustration is your estimate of the amount of premium necessary for the policy to provide approximately the same length of coverage as the other policies I use to finance the nonqualified plan and for which you provide services.

- I understand that if I add a new policy to finance the obligations under the nonqualified plan, the data pages for the policy may show a planned periodic premium that is different than what is being illustrated. I understand that this is for your internal bookkeeping purposes only. I acknowledge that it is solely my responsibility to determine whether to make a premium payment, when to make a premium payment, and the amount of any premium payment.

- If actual investment performance is less than illustrated, actual death benefits and policy values will also be less than illustrated. I may need to increase the length and/or amount of premium payments.

- I should periodically monitor the performance of any actual policy with my registered representative to identify adjustments appropriate to my needs.

- I understand if I terminate any policy, there may be a cost (surrender charge) incurred that reduces the amount of money, if any, I receive by giving up life insurance protection.

Signature of ALL Owners/Applicants Date

I certify that this composite illustration and policy illustrations were presented to the applicant and I have informed the applicant that this composite illustration and policy illustrations assume that the currently illustrated non-guarantee elements will continue unchanged for all years shown. This is not likely to occur, and actual results may be more or less favorable than those shown. I made no statements inconsistent with the composite illustration or policy illustrations.

Signature of Licensed Agent/Broker/Registered Representative Date