Principal®

Grantor Retained Annuity Trust

A transfer strategy with less tax liability

Presented to

Sample company

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Proprietary and confidential

We appreciate the opportunity to prepare and present this Grantor Retained Annuity Trust proposal.

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

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Planning that helps you **transfer more** to the ones you love

Grantor Retained Annuity Trusts (GRATs) and other wealth transfer strategies can help ensure your estate will be distributed the way you choose. For many business owners, the largest asset in their estate is their business. For those likely to face an estate tax, a potential transfer requires careful planning. A well-prepared plan can help protect you and your family in either a planned or unplanned exit.

Start the planning process by asking yourself:

- What assets are or may be in my estate? If a growing business or other high-yielding assets are included, special planning may be required.
- Am I concerned about estate or gift taxes? Current tax law only temporarily provides a higher exemption. So, planning today may help you prepare for tomorrow.[1]

If you're interested in minimizing gift and estate taxes, then an asset transfer into a GRAT may be an effective strategy for you.

This proposal will show you:

How a GRAT works

Why you might want to use a GRAT

What things you'll want to consider

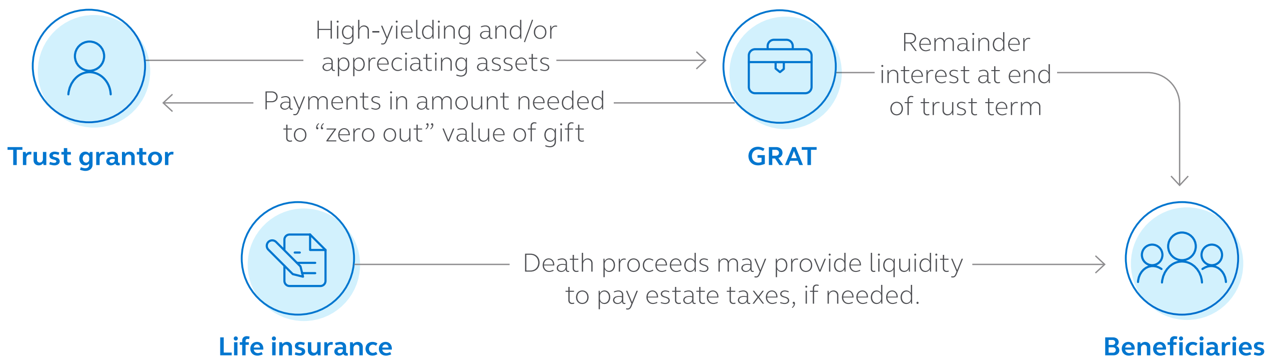
How Principal can help you achieve your wealth transfer goals

[1] The estate tax exemption amount of $13.99 million per person in 2025 is scheduled to sunset after 2025 and revert to its 2017 numbers, adjusted for inflation.

Here's how a GRAT works.

High-yielding assets are transferred into an irrevocable trust. And you, as the grantor, retain the right to an annuity payment for a fixed time frame. The gift tax value of the assets transferred is determined at the time the trust is funded using a "subtraction method." Under this method, the gift tax value is determined by subtracting the value of the total annuity payments from the fair market value of the assets transferred to the trust. If the annuity payments are set high enough, it's possible to "zero out" the remainder interest (what remains in the trust) for gift tax purposes. This can mean that the entire amount that remains in the trust is transferred gift tax-free to the beneficiaries, and less (or none) of your lifetime gift tax exemption is consumed.

If you pass away prior to the end of the retained interest time frame, the current value of the GRAT assets will be included in your estate. Life insurance can reduce the impact of this risk.



When to consider a GRAT

A GRAT may be a helpful tool when:

- You wish to transfer appreciating property to family members while minimizing gift and estate tax liability.
- Gifting or transferring significant income-producing, or highly discountable assets, such as family limited partnership interests or stock of family-owned businesses.
- The transferred or gifted assets are expected to generate income for at least a specific period of time.
- Liquidity will be needed at a known future time, to pay off the loan resulting from a premium-financed or split dollar purchase of trust-owned life insurance.

Benefits of a GRAT

There are a few key reasons why you might use a GRAT to help with the distribution of your estate:

- You can avoid using your annual exclusion and lifetime gift tax exemption if the retained interest equals the value of the property contributed.
- A GRAT will help increase the value of the remainder interest at the end of the term when current interest rates are lower than the growth rate of the asset.
- You may reduce the value of your taxable estate if highly discounted assets are being used.

Factors to consider with a GRAT

As you consider implementing a GRAT, here are some things to keep in mind:

Trust grantor considerations

- If you die before all annuity payments are made, the entire value of the remaining GRAT assets will be included in your estate. The purchase of life insurance is commonly used to reduce the impact of the risk.
- The transfer of assets to a GRAT doesn't trigger capital gains. However, you are responsible for the income taxes generated by assets inside the trust.

Beneficiary considerations

- The GRAT may need to distribute a portion of the principal back to you if income from the assets is not sufficient to provide the promised annuity payments.
- In contrast to inherited assets, which receive an adjustment in basis when the owner dies, there is no adjustment in cost basis of trust assets distributed from the GRAT to the beneficiary(ies).

You benefit from a company that knows business.

As a business decision maker, your financial needs are different than those of other individuals. So, it only makes sense to work with a company that understands the financial needs of businesses and their owner. We help business owners like you every day. Leverage our expertise, solutions, and services as we consult with you on financial solutions that help address specific needs.

- A member of the Fortune 500®, we have $712 billion in assets under management and serve clients worldwide of all income and portfolio sizes.[2]
- Year after year, we receive strong financial ratings from the four major rating agencies — A.M. Best Company, Moody's Investor Services, Standard & Poor's, and Fitch Ratings.[2][3]
- No. 1 provider of nonqualified deferred compensation plans.[2]
- Preparer of thousands of informal business valuations since 2011.
- Reviewer of more than 2,600 buy-sell agreements since 2011.[4]

[2] Principal® 2025 Company Profile, December 2024. https://secure02.principal.com/publicvsupply/GetFile?fm=DD730&ty=VOP&EXT=.VOP.

[3] Third-party ratings relate only to Principal Life Insurance Company, the largest member company of the Principal Financial Group®, and Principal National Life Insurance Company, and do not reflect any ratings actions or notices relating to the U.S. life insurance sector generally. While ratings can be objective indicators of an insurance company's financial strength and can provide a relative measure to help select among insurance companies, they are not guarantees of the future financial strength and/or claims-paying ability of a company and do not apply to any underlying variable investment options. The broker/dealer a life insurance policy is purchased from, the insurance agency and any affiliates of those entities make no representations regarding the quality of the analysis conducted by the rating agencies. The rating agencies are not affiliated with the above mentioned entities.

[4] Based on internal reports.

A GRAT is an estate planning strategy that can help minimize the gift and estate tax consequences of transferring your assets to your loved ones.