



## Proposal

Business and key person protection

# Protect your business from the loss of top talent

Presented to

Sample Business

Presented by

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# You can be better prepared for the unexpected



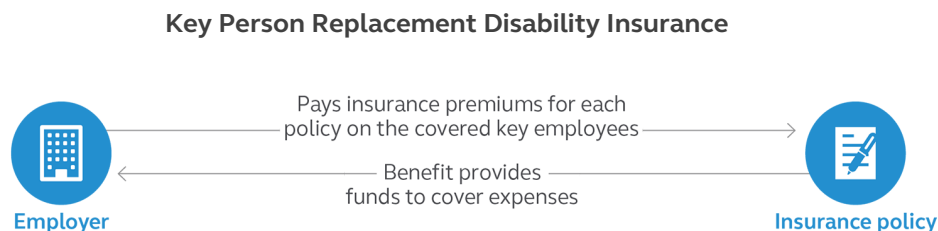
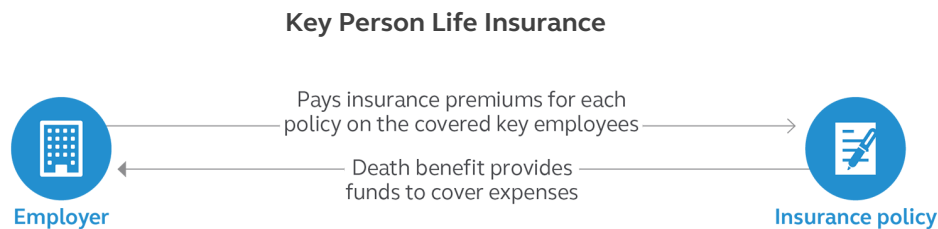
Oftentimes, the most valuable assets of any business are the key people who contribute most to its success.

As an owner your contributions are difficult to measure, and may be more robust than you might think. It's likely that finding a replacement, if something happens to you, would create a financial challenge that could put the business at risk.

One way to address this risk is Key Person life and Key Person Replacement disability insurance. They're designed to provide the funds necessary to help the business recover financially if you or your top talent dies or becomes too sick or hurt to work, and can be a critical component to your business protection strategy. They can also provide liquidity for business succession funding or pay for key employee benefit programs.

## How it works

Your business is the owner and beneficiary of both a Key Person Life insurance policy and a Key Person Replacement disability insurance policy. If the unexpected does happen, the business receives funds, generally income tax-free<sup>1</sup>, to help overcome the financial challenge of the loss.



## Determine the right amount of coverage

Each business is different, so it's important to carefully assess your situation and different protection options. To help you get started:

- 1 | **Review** the customized scenarios on the next pages to see how much coverage may be appropriate for your situation.
- 2 | **Learn** about how much the coverage for each scenario costs.
- 3 | **Assess** the advantages and considerations of this coverage.

<sup>1</sup> If the requirements of the Internal Revenue Code Section 101(j) are not met, death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of cost basis. Based on current income tax laws, if Key Person Replacement disability insurance premiums are paid with after-tax dollars, then benefits are received income tax-free.

# Valued Owner, CEO

## Estimated Key Person Life insurance needs

	Coverage type		
	Base-level (Scenario A)	Moderate-level (Scenario B)	High-level (Scenario C)
<b>Key characteristics</b>			
Number of total employees	11-50 Employees	11-50 Employees	11-50 Employees
Number of key employees	1-5 Key employees	1-5 Key employees	1-5 Key employees
Difficulty to replace	Difficult	Difficult	Difficult
<b>Base protection</b>			
Total compensation	\$600,000	\$600,000	\$600,000
Multiply by factor <sup>2</sup>	x 2.5	x 4.5	x 7.0
Base protection needs	\$1,500,000	\$2,700,000	\$4,200,000
<b>Business succession needs</b>			
Estimated business value	\$10,000,000	\$10,000,000	\$10,000,000
Percentage owned	40%	40%	40%
Business succession needs	\$4,000,000	\$4,000,000	\$4,000,000
<b>Additional coverage</b>			
Long-term business debt	\$0	\$0	\$0
Debt coverage percentage	0%	0%	0%
Debt coverage needs	\$0	\$0	\$0
Key employee benefits	\$0	\$0	\$0
Total other needs	\$0	\$0	\$0
<b>Range of coverage</b>	<b>\$5,500,000</b>	<b>\$6,700,000</b>	<b>\$8,200,000</b>

This business protection proposal is intended to provide a range of coverage for your consideration based on several factors. The policy owner and financial professional understand that amounts applied for are subject to underwriting approval.

### Key Person Life insurance coverage type

<b>Base-level</b>	(1 - 5 times salary)	Provides proposed coverage based on a projected base-level multiple of salary.
<b>Moderate-level</b>	(2 - 7.5 times salary)	Provides proposed coverage based on a projected moderate-level multiple of salary.
<b>High-level</b>	(3 - 10 times salary)	Provides proposed coverage based on a projected high-level multiple of salary.

Any coverage needed for business succession funding and other debt protection and/or benefits financing will be added to the base protection.

<sup>2</sup> This factor is determined by the size of the organization, number of key employees, and level of difficulty to replace.

# Key person term life insurance coverage



The level payment amount and limited duration of term insurance can offer an attractive way to help protect your business. And Principal® offers multiple coverage durations to meet your specific needs.

Outlined below are the projected premium amounts for the three coverage scenarios shown on the previous page, using our 10-, 15-, 20- and 30-year term products.

Key person term insurance coverage for:

**Valued Owner**, Age 45<sup>3</sup>, Female, Super Preferred, Non-Tobacco

Scenario	Death benefit	Annual premium			
		10-year	15-year	20-year	30-year
A: <b>Base-level</b>	\$5,500,000	\$2,080	\$2,798	\$3,924	\$7,335
B: <b>Moderate-level</b>	\$6,700,000	\$2,517	\$3,392	\$4,764	\$8,919
C: <b>High-level</b>	\$8,200,000	\$3,064	\$4,134	\$5,814	\$10,899

Rates provided are an estimate and are not guaranteed; state variations and restrictions may apply that are not represented here.

The Term quote estimates displayed in the table above do not include any Term conversion options.



**Employee retention strategy** — The number of key employees per organization has increased since 2010, with significantly more owners saying they have 4 or more.<sup>4</sup> Do you have benefit plans in place to retain your key employees in the event something happens to you?

<sup>3</sup> Principal product quotations utilize an insured's age nearest birthday.

<sup>4</sup> 2023 Principal Financial Group Business Owner Survey, conducted by Dynata.



# Valued Owner

## Estimated Key Person Replacement needs

	Coverage level		
	Base-level	Moderate-level	High-level
<b>Key characteristics</b>			
Total compensation	\$600,000	\$600,000	\$600,000
Occupation class	5A	5A	5A
<b>Base protection</b>			
Elimination period	180 days	180 days	180 days
Lump sum benefit	\$300,000	\$400,000	\$500,000
<b>Additional information</b>			
Waiver of premium	Included	Included	Included
Length of coverage	To age 65	To age 65	To age 65

This business protection proposal is intended to provide a range of coverage for your consideration based on several factors. The policy owner and financial professional understand that amounts applied for are subject to underwriting approval.

### Key Person Replacement coverage type

The base, moderate and high levels shown provide proposed coverage based on a level of benefit available to a high-income earner. \$500,000 is the maximum benefit that is available.

# Key person replacement insurance



By putting a protection strategy in place now — while everyone is healthy and working — you can minimize a stressful situation. Key Person Replacement disability insurance provides funds to your business if a key person becomes totally disabled. The remaining owner(s) can use the benefits as they wish — to cover recruitment costs, pay for temporary staffing, replace revenue or to address other business needs. Benefits cannot be assigned.

Outlined below are the projected premium amounts for the three coverage scenarios shown on the previous page.

Key person disability insurance coverage for:

**Valued Owner**, Age 45<sup>5</sup>, Female, Occupation class 5A, Non-Tobacco

	Elimination period	Benefit type	Annual premium
A: <b>Base-level</b>	180 days	\$300,000 Lump sum	\$3,120
B: <b>Moderate-level</b>	180 days	\$400,000 Lump sum	\$4,160
C: <b>High-level</b>	180 days	\$500,000 Lump sum	\$5,200

Rates provided are an estimate and are not guaranteed; state variations and restrictions may apply that are not represented here.

**Employee income protection** — To help recruit and retain your key employees, consider offering individual Disability Income (DI) insurance from Principal. It provides monthly benefits to replace a portion of their income if they become too sick or hurt to work.

<sup>5</sup> Principal product quotations utilize an insured's age nearest birthday.

# Properly funding your business protection plan

## Advantages

**Immediate funds** - Insurance benefits can be used to replace lost revenue and cover expenses to recruit, hire, and train a replacement.

**Cost efficiency** - Policies can provide attractive benefit amounts relative to premiums paid.

**Cash values provide a balance sheet boost** - When permanent life insurance is used, any cash value accumulation is carried as an asset on your balance sheet and can be used for other expenses, such as financing a key employee benefit program.

**Convenient options to complete the application** - You may be able to complete your application either online or by telephone interview to get your key person protection put in place quickly and efficiently.

## Considerations

**What's right for you** - There are several insurance funding and design options. Carefully decide what's best for your unique situation.

**Impact on your assets** - Understand how policy holdings will affect your capital and liquidity.

**Personal Life and Disability Income insurance potential** - The business policies do not limit personal life insurance and income protection available from Principal to you and your key employees.

**Disability Buy-Out** - Funds the purchase of a totally disabled owner's interest in the business under a buy-sell agreement. This coverage complements Key Person Replacement insurance and helps the remaining owner(s) or key employee(s) continue to run the business.

## Next steps

- 1 | Identify people who are key to your business.
- 2 | Determine the amount of coverage you need for each of them.
- 3 | Discuss your plans with each key person [and get notice 101(j) signed<sup>6</sup>].
- 4 | Request official illustrations, apply for coverage, and begin underwriting.
- 5 | Once approved, begin the on-boarding process and set-up administration services.

## NOTES

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<sup>6</sup> Notice 101(j) is required to be signed by all covered key employees. The notice must inform the employee that the employer, as policy owner and beneficiary, intends to insure the life of the employee. In addition, Section 101(j) requires that the notice provide the maximum face amount for which the employee could be insured at the time the contract is issued. It's important to keep in mind that the employer is responsible to maintain the necessary records which show compliance with the notice and consent requirement. In addition, the employer should document the HCE, HCI or director status of any insured at the time employer-owned life insurance is purchased. Failure to do so may jeopardize the tax-free status of the death benefit.



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