

Business Continuation Planning Report

Preparing for the unknown future of your business

Presented to

Valued Business, Inc.

Presented by

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Help protect your success.

You're proud of the business you've built and its success. You've worked hard, so you want to make sure that the business plans you have for the future can take place as you intend.

There are three key components to effective planning:

- 1 | **Knowing the value of your business.**
- 2 | **Protecting your business and your key employees.** Business succession and business protection plans allow you to prepare for the unexpected, as well as the future success of your business. And retention and retirement solutions can also help you and your valuable key employees.
- 3 | **Protecting your lifestyle.** Retirement, income protection, and legacy and estate planning solutions help you and your family maintain your lifestyle.

That may sound like a lot to think about. But, that's where Principal® comes in. We're here to help you implement proper business planning and to offer simple processes to help keep those plans current.

You've already taken the first step.

Because the value of your business is such an integral part of effective planning, that's a great place to start. You probably have a good idea of what your business is worth. But, if you're like a lot of other business owners, you may not have ever had your business valued. This report might help you get started towards protecting your business' future success.

Let us help you with the rest.

The rest of the content in this report is intended to help you with the protection aspect of the planning process – protecting your business, your key employees, and your lifestyle.

- **Protecting your business and key employees.**

An important part of this is planning for the future, which includes having a formal business succession plan in place. It's a good way to help ensure that your business will continue in your absence on your terms. This is something many business owners don't address. In fact, 39% of growing businesses don't have an exit or continuation plan in place.⁽¹⁾

Even though the top two transition events for businesses are death and disability of an owner, many buy-sell agreements we've reviewed fail to make these mandatory trigger events. Death is a mandatory buy-out event for 68% of agreements. But for disability, that percentage drops to only 32%.⁽²⁾

- **Protecting your lifestyle.** Protecting the value of your business is a key for this. It's important to your company's overall success should something unexpected happen. But, you also may want to protect the business that's likely a source of income for you and your family, as well as planned retirement income for you. We know this type of planning is easy to avoid, so that's why we've identified some planning solutions to help you get started.

This comprehensive report is meant to be a guide for the long-term future of your business. It starts out with the informal valuation of your business, then highlights possible solutions you might want to consider, based on the needs of your business. And knowing you probably can't do everything at once, we'll help you prioritize your next steps.

We look forward to working with you to help ensure your business will meet the goals you've set and thrive under many contingencies.

⁽¹⁾ 2024 Principal Financial Group® Business Owner Insights Survey, conducted by Dynata.

⁽²⁾ Review of 2,657 buy-sell reviews by Principal Financial Group (1/01/2014 to 5/31/2024).

Know the value of your business.

Determining the value of your business is the starting point and an integral part of the planning process. There are many different methods to value a business, but there's no one method that's always appropriate. At the end of the day, the "fair market value" of a business is the amount agreed upon by a willing buyer and a willing seller. Neither party is under any compulsion to buy or sell, and both must have reasonable knowledge of all the relevant facts. This is a common definition used for valuing a business, but we'll try to add a little more clarity to it below.

Valuation approaches and methods

Business valuation methods are generally categorized under three approaches: asset approach, income approach, and market approach. Since no single method is most appropriate for valuing every business, it's common to reference a business valuation method under any one or all three approaches.

Asset approach

This is typically used with businesses that have substantial tangible assets, usually in the form of inventory and equipment. It's most appropriate for businesses with a substantial amount of fixed assets.

Adjusted book value. This generally represents the "liquidation" value—assets, with adjustments, less liabilities.

Income approach

This type of approach uses prior earnings to estimate company value based on income potential. It's most appropriate for businesses with consistently favorable earnings. Specific methods include the following:

Capitalization of earnings method. Applicable for consulting-type businesses and/or those with few or no tangible assets.

Excess of earnings method. Generally for manufacturing-based firms with significant assets.

Discounted cash flow method. Uses projected values. Projected future earnings are forecast, then discounted using an appropriate rate representative of the "next best investment opportunity" with a comparable level of risk. Used mainly for mergers and acquisitions.

Multiple of discretionary earnings method. Applicable for more service-oriented firms, such as legal, accounting, healthcare systems, dental, engineering, etc. Goodwill of the owner(s) has a significant impact on value.

Market approach

This is based on the prices of similar or comparable businesses that have recently sold. This data is more challenging to find for the sale of small businesses and professional practices, rather than for large businesses. **A valuation using this method is not provided in this report.**

Considerations for valuing a business per IRS Revenue Ruling 59-60

- Nature and history of business
- Outlook of the economy and the specific industry
- Financial condition of the business and its book value
- Earnings capacity of the company
- Nature and value of any intangible assets of the business, such as goodwill
- Relative size and block of the business interest to be valued and any prior sales
- Market price of actively traded stock of corporations in the same or similar business

Comprehensive owner protection

Protecting you and your business from planned and unplanned events is a key to helping ensure the longevity of your business. An important part of that planning includes implementing an appropriate succession plan, key person protection for you, and ensuring you have debt-protection measures in place. It's also important to help protect your lifestyle by putting income replacement and retirement income tools to work for you.

Succession planning

Implementing a formal succession plan is the best way to help ensure that your business will continue in your absence and on your terms. Life and disability buy-out insurance could be considered to fund your buy-sell agreement.

Key person protection for owners

Would your business be as successful as it is if you (or another owner) were to pass away or become disabled? A business protection plan can help you prepare for the unexpected by helping to protect the integrity, cash flow, and ongoing success of your business. Key person life and disability insurance can help protect against life's uncertainties.*

Debt coverage protection

Ensuring that you have appropriate life and disability insurance in place can help protect you and your business from becoming delinquent on any outstanding debt or loans payable.*

* See the Appendix for more information on these potential coverage options.

Plan for a successful transition.

It's easy to think that you'll have plenty of time to prepare for a transition in business ownership. But time can go by faster than you think. There are many events—both planned and unplanned—that could change the business, like retirement, dissolution, death, disability, divorce, and termination. And these events happen more frequently than you might think.

So, don't let an unplanned event (or even a planned one) sideline the business you've worked so hard to build. Now is the time to protect its future and those that depend on it. There are many succession strategies to consider, but start with your goals, which can generally be boiled down to three questions:

Who. To whom will you transfer the business?

Timing. When do you plan to transition out of your business?

Funding. What will it take to generate the income you need for estate liquidity, succession strategies, and replacement income after your working years?

So, let's start with the first question. Then we can help you explore specific solutions, timing, and funding from there.



Help protect your business with a buy-sell agreement.

A properly funded and current buy-sell agreement helps business owners make sure they have the right amount of money, in the right place, at the right time.

A well-designed buy-sell agreement can help you do the following:

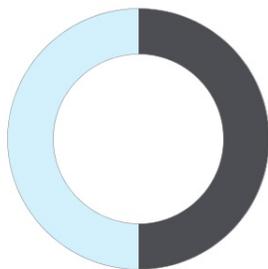
- Provide departing owners a market and price for an asset that might otherwise be hard to sell.
- Prevent an unqualified or undesirable individual from acquiring an interest in the business.
- Minimize business disruptions at various triggering events.
- Provide assurances to employees, customers, suppliers, and creditors that the business is prepared to remain favorable through owner transitions.
- Provide both the financing and the mechanism to ensure that control of the business will remain with the current owners (when funded with insurance).

Important features of a buy-sell agreement

- Firm buy-sell commitments
- A comprehensive list of clearly defined triggering events
- Funding that’s consistent with plan design
- A clearly designated or defined purchase price
- Clear, realistic payment terms
- Language addressing purchase options for life and/or disability income insurance policies

Your company profile

Entity type:	C Corporation	Number of employees:	11-50
Family business:	Yes	Number of business owners:	2
State:	IA	Number of children active in business:	2
Industry:	Consulting	Number of children not active in business:	2
Industry sub type:	Not available	Years in business:	17



Business ownership

Owner	Ownership %	Assumed value today	Estimated future value ⁽¹⁾
Valued Owner One	50.00%	\$2,250,000	\$3,623,647
Valued Owner Two	50.00%	\$2,250,000	\$3,623,647

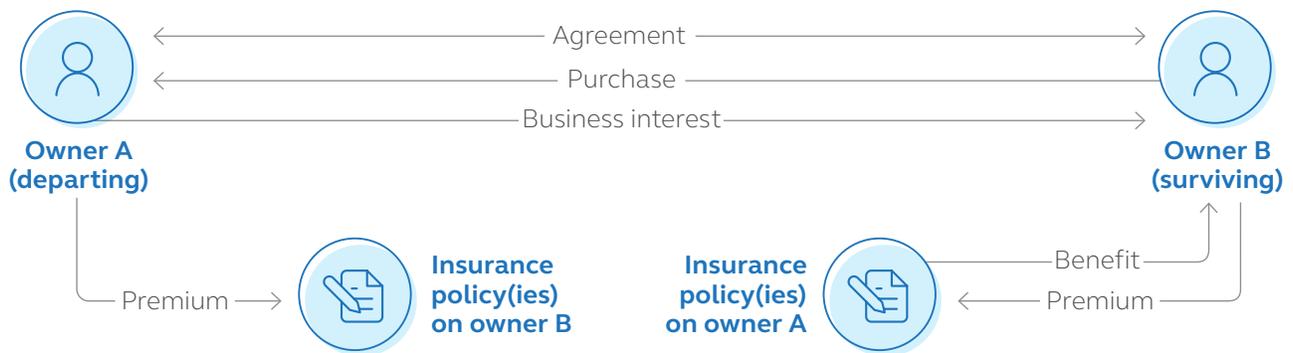
⁽¹⁾ Estimated future value is based on a 10.0% growth rate and 5 year(s) in the future.

Cross purchase buy-sell agreement

A cross purchase buy-sell agreement can help protect the future of your business. It arranges for the remaining owners (rather than the business) to purchase a departing owner's interest. The purchase can be triggered by death, disability, divorce, retirement, or other events.

Here's how it works.

Once the agreement is in place, each owner purchases a life and/or disability buyout insurance policy on each of the other owners. Each owner is the premium payer and beneficiary of the policies he or she owns. Upon the triggering event, the remaining owners purchase the departing owner's business interest using policy cash values or benefits from the policy.



What you need to know.

There are advantages to this sort of an agreement, just as there are some other things to consider.

Death benefit received does not increase the value of the business or estate. Life insurance proceeds are paid to the surviving owner, so there's no impact to the value of the business or the value of the deceased owner's estate.

Taxes could be minimized upon a subsequent sale. Insurance proceeds are generally received income tax-free. Remaining owners receive an increased cost basis as a result of the purchase price paid to the departing owner.

Business may pay premiums. Dollars used to pay premiums are taxable as a bonus to the policy owner and generally deductible to the business.

Multiple policies may be necessary on each owner. If there are more than two business owners, multiple policies on each are required. Each business owner is the owner, premium payer, and beneficiary of policies on each of the other owners. So, if there are multiple business owners, this may become cumbersome.

Tax implications can vary by triggering event. Family members generally receive an adjusted basis following an owner's death. For disability or other lifetime triggering events, the selling owner may recognize capital gain.

How to fund a buy-sell agreement

Buy-sell agreements involve the selling and buying of the departing owner’s business interests according to the terms of the formal agreement. This means money will be needed to complete the transaction when it occurs. So, it’s best to have a plan for securing that money. There are basically five options for this.

Funding methods

Cash. Requires sufficient cash flow to pay the full price in a lump sum.

Loan. Involves unknown factors, such as future credit availability and cost of borrowing. Borrowed funds must be repaid (with interest) from earnings. A down payment is generally required.

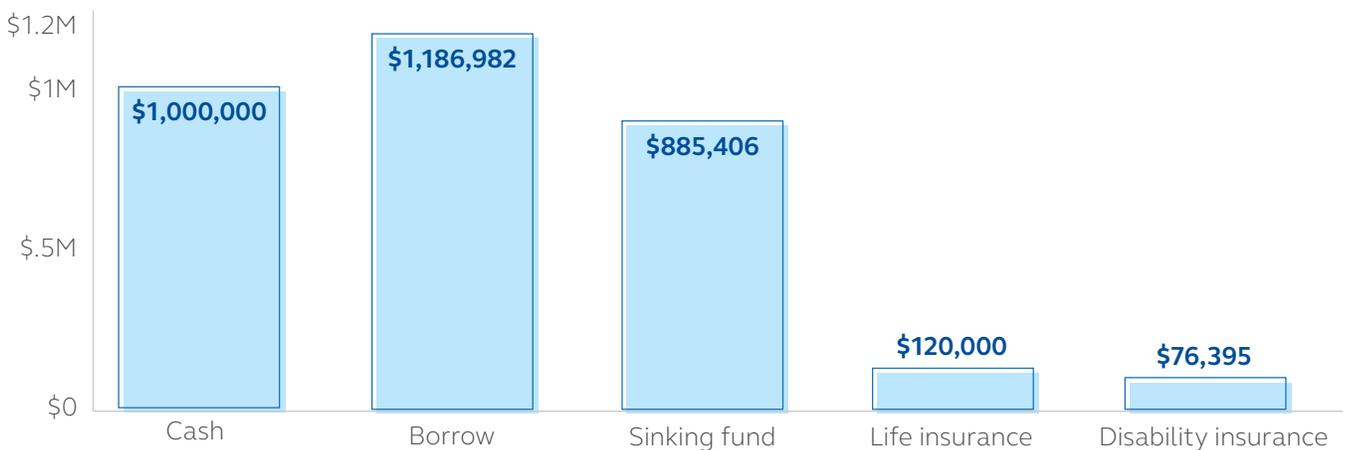
Savings. Doesn’t assure that sufficient funds will be available when needed because of unpredictable departure timing.

Installment sale. Requires repayment from earnings and is contingent on future success of the business.

Insurance. Provides liquidity when purchased upon the implementation of an agreement. Since the death or disability of an owner is often unpredictable and disruptive to a business, each is typically a mandatory triggering event in a buy-sell agreement.

How do you decide which method is appropriate for your situation? Timing of liquidity and cost are typically the key considerations. Compare these hypothetical protection costs for a \$1,000,000 purchase price.⁽¹⁾

Hypothetical funding method cost at end of 15 years



Assumptions:

Cash: \$1,000,000.

Borrow: Represents five equal annual payments of \$200,000 plus interest at 6%.

Cash & sinking fund: Sinking fund of \$146,621 (annual deposits equal to the life insurance premiums growing at 8%) plus the balance necessary of \$853,379 in cash.

Life insurance: Estimated premiums of \$8,000 for Male, 45, Preferred, Non-tobacco, UL Flex III policy.

Disability Buy-Out (DBO) insurance: Estimated premiums of \$5,093 for Male, 45, Occupation class 6A DBO policy. Insurance premiums paid for 15 years. Not valid without accompanying insurance illustrations. See illustrations for important information.

⁽¹⁾ The amount of insurance available to purchase depends upon the value of the business. Underwriting standards for life insurance and disability coverage are different. Disability buy-out insurance may not be available for every business.

Special considerations for family-owned businesses

Transitioning a family-owned business such as yours can be tough. The most challenging part is often balancing the competing needs of your family members:

- Providing sufficient retirement income for exiting owner
- Leaving a healthy business to support itself and your successor
- Assuring other family members of an equitable inheritance

So, how do you successfully plan for a transition from generation to generation? Start with a plan that includes a well-drafted buy-sell agreement that covers all the triggering events. Then, make sure that it's adequately funded for your goals and your business.

Inheritance equalization

For many owners, it's important to treat children equally when leaving an inheritance. But, if a large portion of your estate is your business, you may feel like you're trying to divide the indivisible. While the inheritance you leave each child might not be identical and equal, it can still be fair and equitable.

We can help you evaluate your specific situation and determine what a fair distribution looks like to your family.

Hypothetical inheritance equalization analysis

Current plan

Type	Child 1	Child 2	Child 3	Child 4
Business assets	50%	0%	0%	50%
Other assets	0%	50%	50%	0%

Proposed plan

Type	Child 1	Child 2	Child 3	Child 4
Business assets	50%	0%	0%	50%
Other assets	0%	50%	50%	0%
New insurance	0%	50%	50%	0%



Federal estate tax considerations

If you become subject to federal estate taxes due to the size of your total estate, there are special concerns about the valuation of your business. The federal estate tax has a threshold (lifetime exemption) of \$13,610,000 (in 2024 as indexed), but this threshold is scheduled to drop by about half beginning January 1, 2026. Many business owners who do not currently face an estate tax liability may be subject to it in 2026 and later years.

Because the federal estate tax is imposed on each generation, one of your goals might be to use the buy-sell agreement to establish a value that will be respected for federal estate tax purposes. This is known as “locking in” the value of the business.

Valuing requirements

It might be possible to lock in the value of the business if the buy-sell agreement meets these requirements::

- Price must be fixed or formula-based under the agreement.
- Estate must be obligated to sell at death at the agreement price.
- Agreement must prohibit the owner from disposing of his or her interest during life without first offering it to the other party or parties at no more than the agreement price.

Special requirements for family-owned business buy-sell agreements

The IRS will pay extra attention to the valuation aspects of any business-interest transfer among family members for estate tax purposes. You might keep the IRS from setting its own value of your business by following these primary rules:

- Ensure the buy-sell agreement is a bona fide business arrangement and not a device to pass the interest to heirs without full and adequate consideration.
- Ensure the agreement value is comparable to similar arrangements entered into by persons in arm’s-length⁽¹⁾ transactions.
- Know what your buy-sell agreement requires in the event of a death and follow its requirements carefully.

Possible impact on value of business. The U.S. Supreme Court in *Connelly v. US* (2024) held that if the buy-sell agreement does not successfully lock in a value for estate tax purposes, life insurance paid to a company generally increases the value of the company for estate tax purposes, with no offset for the redemption obligation. If any owner anticipates being subject to the federal estate tax, it’s important to select the appropriate buy-sell design to help mitigate this concern. Alternatively, additional life insurance (likely owned in an irrevocable trust) may be needed to provide liquidity to pay any estate tax that may be due.

⁽¹⁾ The arm’s length principle is the condition or fact that the parties to a transaction are independent and on an equal footing. Such a transaction is known as an arm’s-length transaction.

Protect the business from the disability or loss of an owner.

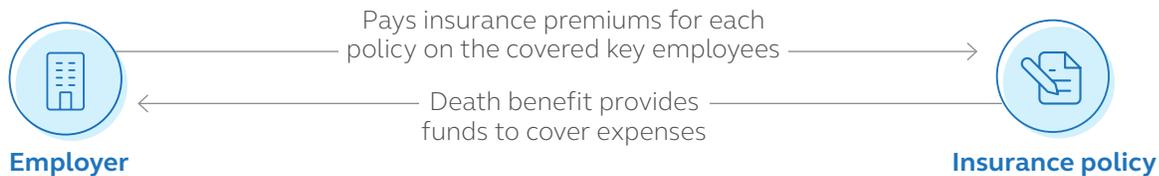
Oftentimes, the most valuable assets of a business are the business owners who contribute most to its success. They are the heart and soul of the business with knowledge and responsibilities that may seem irreplaceable.

Consider the time and money that would be necessary to replace this talent. Their loss will certainly create some financial burden that could put your business at risk.

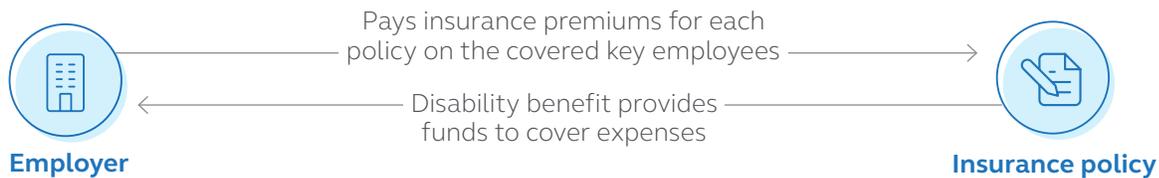
Protecting the business

Principal offers two solutions to help protect your business if the unexpected happens—life and disability insurance. For both, your business is the owner and beneficiary. If an unexpected death or disability of one of the covered owners does happen, the business receives funds, generally income tax-free⁽¹⁾, to help overcome the financial challenges of the loss.

Key person life insurance. Available as a term or permanent life insurance policy that provides a death benefit to help the business overcome financial challenges at the death of the owner/key employee.



Key Person Replacement insurance. Provides business funds to help overcome the financial challenge of the loss of an owner/key employee if they become too sick or hurt to work.⁽²⁾



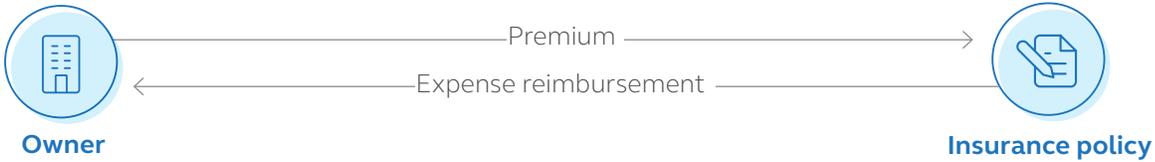
⁽¹⁾ If the requirements of IRC Section 101(j) are not met, then death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of the cost basis.

⁽²⁾ Key Person Replacement insurance is only available to owners with 50% or less ownership.

Overhead expense insurance. Helps business owners keep the business running when they're too hurt or sick to work.

Make sure your business is protected—no matter what life brings—with overhead expense insurance. It helps keep your business running while you recover from a disabling illness or injury. And it helps ensure you have a financially sound business to return to or sell.

You pay premium on the insurance policy. The amount of your maximum monthly benefit is based on your type of business and current covered business expenses. Then, while disabled, you're reimbursed monthly based on your actual covered fixed business expenses for the month.



Debt coverage protection. Provides the business with the funds necessary to address outstanding debt should a business owner die or become disabled. Company-owned life insurance and the business loan protection rider can provide funds to help pay any outstanding corporate debts of the deceased or disabled owner.

NOTE: If you provided salary and debt information, proposed coverage amounts are available in the Appendix.

Your retirement, income replacement, and legacy

The importance of protecting your business may only come second to protecting your family and your lifestyle from the unexpected. Preparing for your eventual retirement, as well as protecting against the financial challenges that can occur from an unexpected death or disability, are equally important.

Business owner retirement

You've poured a lot of yourself into making your business successful. Now, it's time to take a few steps to make sure you're building a solid foundation for your retirement. Your business can play a key role in your retirement planning. Depending on the value of your business and the strength of your transition plan, your business can generate income during retirement, just like it has through your working years. All it takes is some careful planning and the right resources.

Protecting your income

Like protecting the value of your business, you likely also want to consider the importance of protecting your income from the unexpected. Life insurance and individual Disability Income insurance can help replace a portion of your income lost due to your death or disability. This protection can help maintain your and your family's lifestyle without draining savings or business profits.

Legacy and estate planning

Preserving all that you've built for the next generation takes careful planning. A proper plan helps ensure your assets—both personal and business—can meet your lifetime objectives and will be distributed the way you want.

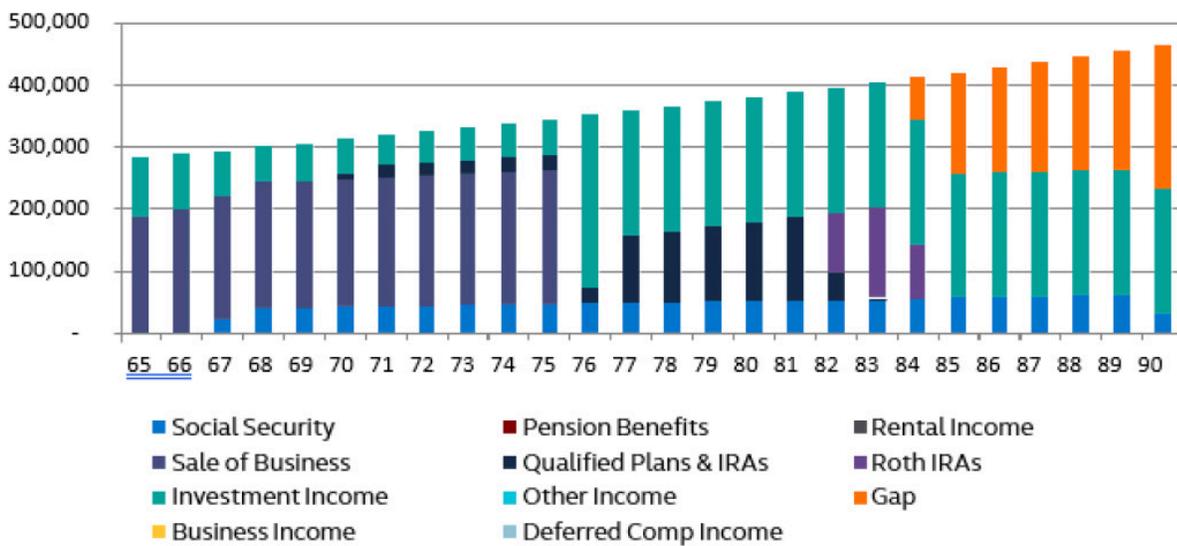
Your business plays a key role in your retirement.

You've poured a lot of yourself into making your business successful. Now, it's time to take a few steps to make sure you're building a solid foundation for your retirement. Your business can play a key role.

Many financial professionals say that each of us will need annual income of at least 80% percent of our pre-retirement earnings to maintain our current standard of living during retirement. Where will that money come from? You may be relying on a combination of Social Security, a qualified retirement plan, such as a 401(k) plan, and your business. However, Social Security and qualified retirement plans have limits that can negatively impact business owners' ability to save for retirement by capping contributions, payouts, and tax advantages. This can result in a retirement income gap.

Sample retirement gap calculation from Business Owner Retirement Analysis

Your retirement gap at age 66 is \$377,322.



Your business may be the key.

Depending on the value of your business and the strength of your transition plan, your business can generate income during retirement, just like it has done through your working years. All it takes is some careful planning.

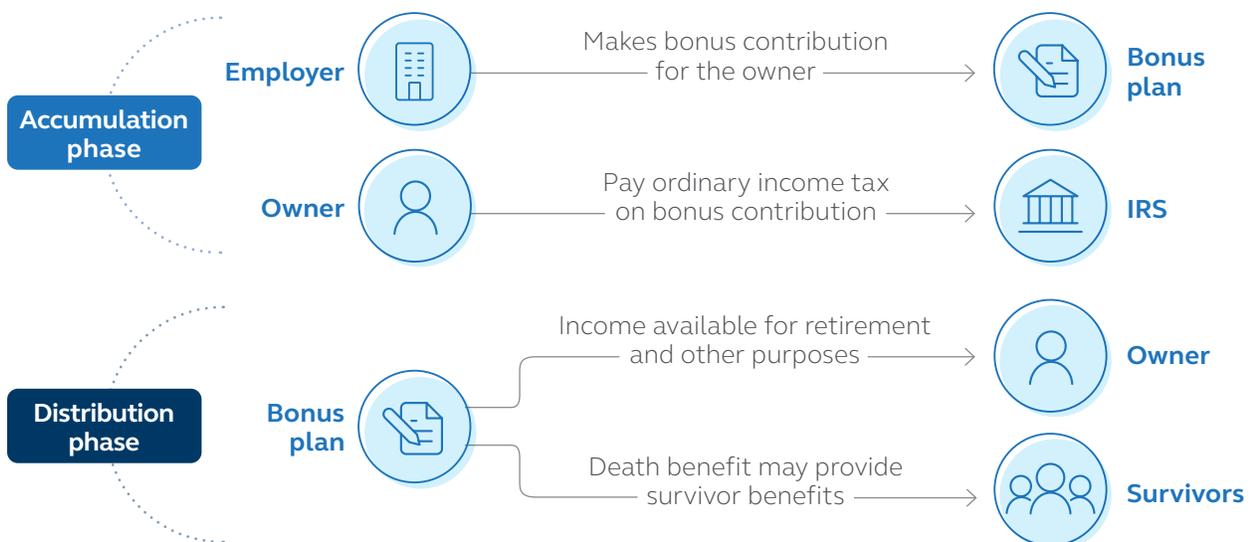
Many assume that the sale of their business will provide enough to keep them comfortable in retirement. But, some find out when it's time to sell that the business isn't worth enough to sustain their income needs. In order to know where you stand, you need to consider the potential sale price of your business. Then, you can plan accordingly. Our Business Owner Retirement Analysis can pull all of these factors together to help you evaluate your current plans and financial position. Request your free analysis today.

Principal[®] Bonus

Where will you get your retirement income? Social Security? A 401(k) account? For many business owners, even if you rely on both sources, it may not be enough. You may also be relying on a regular income stream, or proceeds from the sale of your business to fill this gap. Either strategy involves uncertainty. A bonus plan may be a more reliable way to address any gap and also offer you retirement income benefits on a tax-deductible basis.

Here's how it works

Typically, the bonus contributed to the plan for the owner is used to buy a life insurance policy from Principal¹. This policy funds the bonus plan and provides retirement income, death benefit protection, as well as additional living benefits.



What you need to know

There are many advantages to this plan, just as there are some things to consider.

For the business:

Receive tax deduction. A current tax deduction is received on the bonuses contributed to the plan.

Save time. Time is saved by not having to deal with annual reporting or ERISA requirements.

Impact cash flow. Bonuses paid reduce company cash flow.

For the owner:

Save more. More can be saved for retirement; above the limits of a qualified plan, such as a 401(k) or 403(b).

Receive multiple benefits. Distributions may be used for planned events, such as supplementing retirement income, funding a child's education, or purchasing a second home. The plan can also provide access to funds to address unplanned events, such as disability, chronic illness, and other financial needs.

Enhance financial security. The owner's family may receive tax-free benefits at the owner's death.

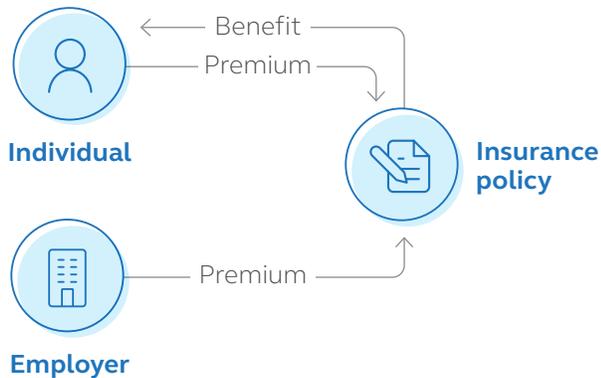
Owns the policy. You own the life insurance policy.

Individual life insurance

Your family depends on your income. Life insurance can help them cover the costs your salary helps pay, like mortgages, utilities, groceries, college funding, and any other debt or expenses. Generally, you may want to consider providing enough coverage for your family to manage up to 10 years of expenses.

Here’s how it works.

You, or your employer, pay the premium on an individual life insurance policy. Upon death, your beneficiary is paid a tax-free survivor benefit. Premium and survivor benefit amounts are generally determined based on age and medical history of the insured.



Life insurance protection example*

Male, age 45, non-tobacco user

Total compensation \$250,000

Years of income replacement x 10.0

Life insurance coverage \$2,500,000

10-year Term annual premium	\$1,262
20-year Term annual premium	\$2,473

* Based on a Principal® Term life insurance, convertible policy and Super Preferred underwriting class.

What you need to know.

There are advantages to this protection, just as there are some things to consider.

For your business

Benefits enhancement. Can be an attractive addition to an employee benefit package if the employer pays all or part of the premium.

For the individual

Increased protection. Can supplement group insurance coverage.

Tax-free benefits. If premiums are paid with after-tax dollars, the benefits received are tax free .

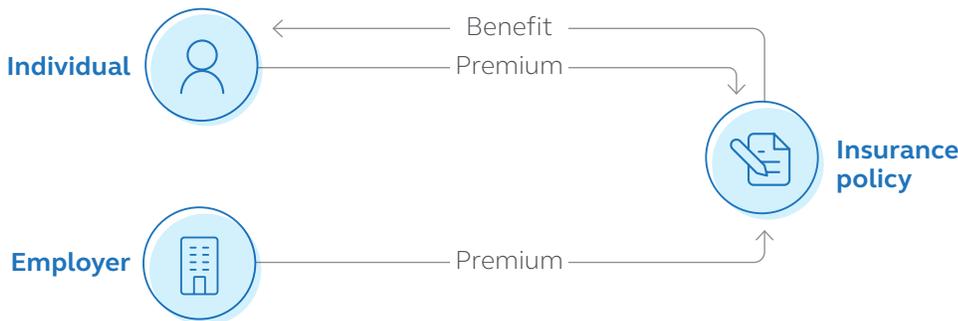
Cost efficiency. Policies can provide attractive benefit amounts relative to premiums paid.

Disability Income insurance

Protecting your income using Disability Income insurance can be a smart move. It's designed to help replace lost income by providing monthly benefit payments if you're too sick or hurt to work.

Here's how it works.

An individual or employer pays premium on an individual Disability Income policy. Upon meeting the definition of disability, the insured is paid a monthly benefit for a set period of time stated in the policy. Benefit amounts are calculated for insureds at the time of purchase based on factors such as their income, occupation, medical history, and whether they have other disability insurance coverage.



Sample cost for a 45-year old male*

Total compensation	Policy Elimination Period	Monthly benefit to Age 65	Replacement coverage	Annual premium
\$250,000	90 days	\$11,910	57%	\$4,200

This is a hypothetical example for illustrative purposes only.

* The estimated premium and benefit amounts are based on a Disability Income policy, 45-year old male, non smoker, 6A occupation class, issued in Colorado. Disability insurance coverage and riders may not be available in every state.

What you need to know.

There are many advantages to this protection, just as there are some things to consider.

For your business

Benefits enhancement. Can be an attractive addition to an employee benefit package if the employer pays all or part of the premium.

Tax efficiency. Premium can be paid with pre-tax dollars. But the benefits received by disabled employees will be taxed.

Available discounts. If three or more individuals with a common employer purchase coverage, they're eligible for a 20% multi-life discount (based on unisex rates).

For the individual

Increased protection. Can supplement group disability insurance coverage to protect more income.

Tax-free benefits. If premiums are paid with after-tax dollars, benefits are received tax-free.

Slight delay in benefits. Benefit payments begin one month after the individual satisfies the policy's elimination period (the number of days they must wait before benefits begin).

DI Retirement Security

Keep your retirement plans on track—no matter what life brings—with DI Retirement Security from Principal.⁽¹⁾ If you become disabled, it can help you continue saving for retirement.

Here's how it works.

An employee (or you, as the employer) pays premium on an individual disability policy. Upon a disability, the benefits go directly into an irrevocable trust. Those dollars are then invested into an asset allocation model based on your risk tolerance, until the end of the benefit period is reached. At that time, the trust assets are available to the disabled employee.



What you need to know.

There are advantages to this sort of protection, just as there are some other things to consider.

Benefits enhancement. Can be an excellent addition to an employee benefit package if the employer pays all or part of the premium.

Taxes for the employer. Benefits paid to the trust are taxable as income when the employer pays the insurance premium with pre-tax dollars.

Tax benefits. Benefits paid to the trust are income tax-free when the employee pays the premium with after-tax dollars. (This could include premiums paid by the employer as a bonus to the employee, as long as the bonus is after-tax dollars.)

Potential taxes for the employee. Trust earnings are taxable annually and declared on the employee's tax return unless benefits are invested in a tax-deferred annuity.

Flexibility. Employee can choose from multiple investment options. And monthly benefit amounts don't need to match the employee's current retirement contributions.

Reporting. If disabled, the employee receives an annual 1099 form listing interest, dividends, and capital gain distribution information. They also receive a quarterly statement of trust assets and activity.

⁽¹⁾ DI Retirement Security is issued as a non-cancelable, guaranteed renewable, individual disability income insurance policy. It is not pension or retirement program or a substitute for such a program. DI Retirement Security is not available to anyone who is over insured based on Principal's current Issue and Participation guidelines. It may not be available or the benefit amount may be reduced for certain occupations if there is existing DI coverage with lifetime benefits. Additional underwriting guidelines may apply.

Preserve the legacy you've built.

Preserving all that you've built for the next generation takes careful planning. But, a proper plan helps ensure assets—both personal and business—meet lifetime objectives and will be distributed the way you want.

Some may think this type of planning is just for the wealthy. For many individuals, the higher federal estate-tax exemption may fully shield you from federal estate taxes. However, there are other estate settlement costs, including accounting fees, appraisals, income taxes, attorney fees, court costs, final expenses, and state death taxes.

Wealth transfer tactics can help ensure your assets are distributed in an equitable and efficient manner—and in the manner in which you have selected. And numerous wealth preservation techniques involve both estate and business planning. Common techniques:



Inheritance equalization. The net worth of many business owners consists mostly of the business. In a situation in which some children participate in the business and others do not, how can you be fair and equitable? Life insurance can create an opportunity to provide for a fair division of assets, while making sure that control and ownership remain with the children working in the business.



Gifting strategies. The higher gift-tax exemption presents a substantial opportunity to transfer wealth and reduce long-term estate tax exposure for individuals willing and able to make gifts during their lifetime. A current gift removes future appreciation and income from the taxable estate.



Discounting strategies. Valuation discounts (e.g., lack of control and lack of marketability) may reflect the lower market value of minority ownership interests in closely held businesses. This can reduce the gift-tax value of transferred assets.



Trust solutions. This simple gifting strategy makes a cash gift to a trust, such as an irrevocable life insurance trust (ILIT). Then, that gift is leveraged with life insurance. An ILIT funded with a life insurance policy is a popular and proven estate planning tool that offers a death benefit payable when needed.

This type of planning may seem complicated, but that's why Principal has products and services to help make it easier for you. We'll help you project potential estate taxes and analyze different wealth transfer techniques. We can help you evaluate your situation and recommend strategies to help meet your needs. Periodic reviews of your estate and business transfer plans can help protect your legacy.

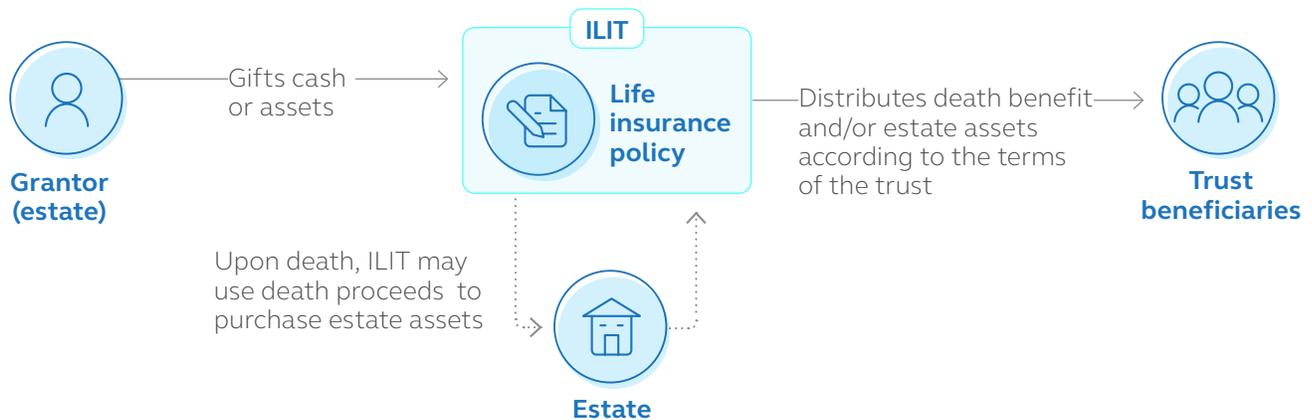
Irrevocable life insurance trust

People with estates of all sizes share this common concern: making sure their family receives the full benefit of their lifetime's work. However, those with larger estates, potentially subject to the federal estate tax, have the added concern of the effect of the tax on their legacy. An irrevocable life insurance trust (ILIT) can address this issue. It can help you do the following:

- Meet the liquidity needs of your estate.
- Avoid estate taxation of the death proceeds.
- Generate income for your family members.
- Provide creditor protection of your property.

Here's how an ILIT works.

- As the grantor, you establish the ILIT and gift cash or assets to the trust.
- Generally, the trust then purchases, pays for, and is the owner and beneficiary of a life insurance policy on you, or you and your spouse.
- Upon your death, the trust receives the life insurance death proceeds.
- Typically, the trustee uses the proceeds to purchase assets from your estate. This helps assure your estate will have cash to pay the taxes.
- The trust distributes any assets to the beneficiaries according to our wishes.



What does it all mean?

Let's start with some basics:

Grantor. The person/people who create the trust.

Irrevocable. When a trust is irrevocable, it means it's final and generally can't be changed. You give up rights to the property transferred to the trust.

Trust beneficiaries. The people who want to receive the benefits paid from the trust. In most instances, your beneficiaries are family members—children, grandchildren, and perhaps their spouses.

Trustee. The person or firm you select to administer and carry out the terms of the trust.

Help protect your business from the loss of a key employee.

In the event of a death, disability, or resignation of a key employee, would your business be as successful as it is today? A business protection plan can help you prepare for the unexpected and lessen the impact of such a loss. Unfortunately, **only 52% of business owners have a business protection plan in place⁽¹⁾**, leaving them exposed to risk.

A business protection strategy can lower the risk. It allows you to implement a financial cushion, with cost-effective liquidity, which can help replace and/or retain key employees who critically impact the value of your business.

Are business protection solutions right for your business?

Before moving forward with a strategy, an important first step is to ask, “Who exactly are my key employees?” Think about the employees in your organization who really make a difference. Consider the areas of operations, workflow, relationship management, customer relations, sales, and profitability.

Then, think about these questions:

YES NO

- Would your business be negatively impacted by the **loss of a key employee due to a death, disability, or departure?**
- Are you interested in developing special incentives to **tie your key employees to the business** for the long term?
- Would your key employees like to **save more money** on a tax-advantaged basis?

If you answered yes to any of these questions, you can implement simple strategies to help. There are generally two types of solutions: **key person protection** and **key employee benefits**.

Key person protection

Protect the integrity, cash flow, and ongoing success of your business from the loss of a key employee due to death, disability, or termination of employment. Key person insurance helps the business overcome additional expenses associated with recruiting and training a replacement.

⁽¹⁾ 2024 Principal Financial Group® Business Owner Insights Survey, conducted by Dynata.

Recover from the unexpected loss of top talent.

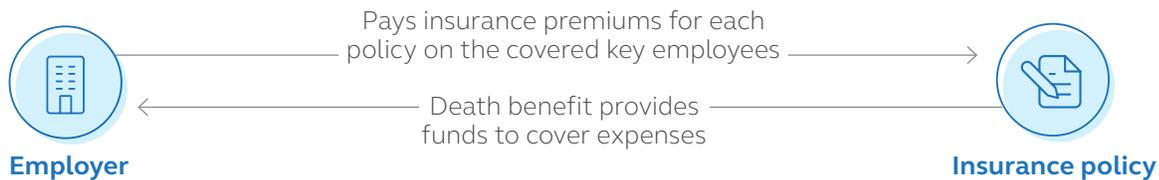
Oftentimes, the most valuable assets of any business are the key people who contribute most to its success. They generate revenue, handle major responsibilities, and have a unique wealth of knowledge that seems irreplaceable.

Have you considered the amount of time and money it would take to replace your top talent? If their loss would create a financial burden that puts the business at risk, key person insurance can be a simple and efficient solution.

Protection for a loss

Principal offers two solutions to help protect your business if the unexpected happens—life and disability insurance. For both, your business is the owner and beneficiary. If an unexpected death or disability of one of the covered key employees or owners does happen, the business receives funds, generally income tax-free⁽¹⁾, to help overcome the financial challenges of the loss.

Key person life insurance. Available as a term or permanent life insurance policy that provides a death benefit to help the business overcome financial challenges at the death of the key employee/owner.



Sample cost for coverage on a 45-year-old key employee/owner*

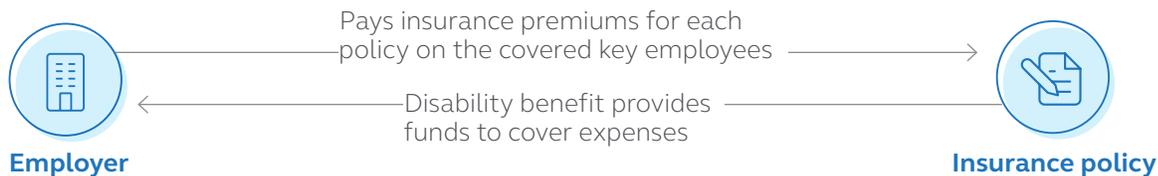
Death benefit	Annual premium	
	10-year	20-year
\$1,000,000	\$670	\$1,200

This is a hypothetical example for illustrative purposes only.

* Based on a Principal® Term, Convertible policy, 45-year-old male, non-tobacco user, Super Preferred underwriting class.

⁽¹⁾ If the requirements of IRC Section 101(j) are not met, then death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of the cost basis.

Key Person Replacement insurance. Provides business funds to help you overcome the financial challenge of the loss of a key employee/owner if they become too sick or hurt to work.



Sample cost for coverage on a 45-year-old key employee/owner*

Elimination period	Benefit amount	Annual premium
180 days	\$400,000 Lump sum	\$2,720

This is a hypothetical example for illustrative purposes only.

* The estimated premium and benefit amount is based on a Key Person Replacement policy, 45-year-old male, non smoker, 6A occupation class, issued in Colorado. Disability insurance coverage and riders may not be available in every state.

Key person coverage can help you:

- Offset the cost of finding a replacement and loss of revenue during training.
- Cover temporary staffing costs.
- Demonstrate financial stability to creditors and clients.

Benefits

Immediate funds. Insurance benefits offset the cost of finding a replacement and loss of revenue.

Demonstrate financial stability. Creditors and clients want to know that the business has the funds necessary to continue.

Cost efficiency. Policies can provide attractive benefit amounts relative to the premium paid.

Considerations

Flexibility. There are several funding options, including insurance. Carefully decide what’s best for your business.

Impact on your assets. It’s important to understand how key person insurance will affect your capital and liquidity.

Multiple benefits. If key employee retention is a concern, consider funding your key person plan with permanent life insurance to also provide a key employee benefit.

Retirement benefits

Qualified plans and individual retirement-based plans offer business owners an opportunity to provide a benefit to all the employees. Only these plans offer a tax-deduction to the employer and an income-tax deferral to the participants, including the business owners on contributions made to these plans. Generally, most employees must be covered.

These types of retirement plans are available in a variety of designs and can help do the following:

- Enhance your total benefits package by offering a retirement benefit to a broad base of employees.
- Encourage loyalty and continued service by helping employees secure their financial future.
- Generally, help to protect plan assets from any claims of an employer’s creditors.

Considerations for qualified retirement plans*

Business considerations	401(k) plan*	Defined benefit plan	Employee Stock Ownership Plan (ESOP)	SIMPLE IRA	Simplified Employee Pension (SEP)
Advantages	Popular, easy to understand, flexible design options; funded with employee and employer contributions	Highest potential contributions and benefits	May provide succession plan for owners and beneficial ownership to employees	Easiest to implement and administer; funded with employee and employer contributions	Easy to implement and administer
Considerations	Participation by rank and file may affect how much owners can contribute	Employer contributions required; employer bears investment risk	Highest costs to set up and administer	Less flexibility in design; no vesting schedule allowed	Funded entirely with employer contributions; no vesting schedule allowed
Employer contributions	Flexible; matching, nonelective, and/or profit sharing	Required; actuarially determined based on benefit promised	Generally required, depending on financing arrangements	Required; 3% match or 2% of employee compensation	Required; up to lesser of 25% of comp or \$69,000*
Employee contributions	Up to \$23,000 plus \$7,500 if over age 50	Not applicable	Generally, not applicable	Up to \$16,000* plus \$3,500 if over age 50	Not applicable

* Not all plans allow participants to defer income. There are contributory DB plans. They are fairly rare now, but were common several decades ago. Dollar amounts listed are as indexed for 2024.

Key employee benefits

Recruit, reward, retain, and retire key employees with key employee benefit plans. These plans can help you by helping them. They can provide additional benefits and/or help them make up for benefits lost due to government restrictions placed on qualified retirement plans. The result? More engaged and loyal employees and a great recruiting tool, too.

Specifically, these plans can do the following:

- Enhance your total benefits package by offering a financial reward.
- Encourage loyalty by helping to secure their financial futures.
- Give key employees an incentive to grow the business.
- Provide simplified government reporting and disclosure rules—or none at all.

Considerations for common key employee benefit plans

Business considerations	Principal® Bonus	Principal® Deferred Compensation - SERP	Principal® Deferred Compensation - Select Reward	Principal® Deferred Compensation - Defined Contribution	Principal® Loan Split Dollar
Immediate tax deduction	Yes	No	No	No	No
Golden handcuffs	Limited	Yes	Yes	Yes	Yes
Cost recovery	No	Yes	Yes	Yes	Yes
Administrative services	Yes	Yes	Yes	Yes	Yes
Employer contributions	Yes	Yes	Yes	Yes	Yes
Employee contributions	Yes	No	No	Yes	No

Principal® Deferred Compensation – SERP

This plan could be an attractive solution for you and your key employees.⁽¹⁾ It provides valued benefits to your top talent in the future, which encourages them to stay with you for the long term, instead of exploring opportunities with your competition. It can also help enhance their retirement savings.

Here's how it works.

A defined contribution deferred comp agreement is established with select key employees. You determine how much you want to contribute to the plan for each key employee. You then have some additional plan design options, such as implementing a vesting schedule and determining payout terms.

Life insurance is used to help informally finance the plan. An optional endorsement split dollar agreement may be available, so that part of the policy death benefit could go to the key employee's survivors if the key employee should die during the service period.

Then, upon a triggering event (termination of employment, retirement, disability, or death), a payout may begin for the key employee. Payouts can be made in a lump sum or over varying pay periods.



What you need to know.

There are many advantages to this plan, just as there are some things to consider.

For you

Encourage loyalty. You provide incentive for the key employee to join your company and stay for the long term.

Enjoy flexibility. Based on your business needs and goals, you can choose from a range of life insurance products, vesting schedules, and payout options.

Receive a tax deduction. The company receives a tax deduction in the year the benefit is paid.

Reduce cash flow. Premiums are paid with company after-tax dollars, so each premium payment reduces your annual cash flow.

Recover the premium cost. If the key employee dies before a triggering event, the life policy's tax-free death benefit may be used to recover the cost of the premiums paid by the company.

For your key employees

Receive tax-deferred growth. Earnings and employer contributions accumulate in the plan tax-deferred.

Review investment options. The key employee may be given the opportunity to choose the deemed investments (also known as reference investments) used to measure the value of their account. This might include offering a fixed interest rate.

Help provide for the future. Benefits from the plan can help supplement retirement income and may provide financial support to key employees' beneficiaries if death occurs during the service period.

Must qualify. The key employee must be healthy enough to qualify for the life insurance policy.

Pay taxes. Employer contributions will be treated as wages and subject to payroll taxes. Generally this occurs when the employer contributions become vested. Income tax is due on the deferred comp benefit amount in the year it's received.

⁽¹⁾ This plan is considered a deferred compensation plan subject to IRC Section 409A requirements.

Bolster your benefit plan with insurance coverage for key employees.

As a business owner, you likely understand the importance of protecting your business by retaining your top talent. Life and individual disability insurance from Principal® can help. Offering key employees individual life and disability insurance coverage as a benefit to supplement a group insurance plan can help bolster your benefits package.

Key employees may need more protection.

Group benefit plans, including life and disability insurance, provide a good base level of protection for all employees. However, you may not have considered how these employee benefits provide less (as a percentage of pay) to your key employees than other employees due to maximum benefit plan limits.

For example, consider the impact of group life and long-term disability insurance to employees at four different salary levels in the following hypothetical scenario.

Employee compensation level (annual)	Maximum group life insurance benefit ⁽¹⁾	How much of their income is replaced by the group long-term disability plan? ⁽²⁾
\$75,000	\$150,000 (or 2x compensation)	\$3,750 (60% replaced)
\$100,000	\$200,000 (or 2x compensation)	\$5,000 (60% replaced)
\$200,000	\$200,000 (or 1x compensation)	\$6,000 (36% replaced)
\$400,000	\$200,000 (or ½ x compensation)	\$6,000 (18% replaced)

In a competitive job market, it's important for certain key employees to receive benefits in line with their salary levels. There are several flexible ways this can be accomplished. Each can be tailored to the exact benefits you want to provide and the employees who'll receive them.

Life insurance benefits

An employer's group life insurance plan replaces a higher percentage of compensation for rank-and-file employees than for higher-earning key employees. In the example above, those earning \$200,000 or more would receive a life insurance death benefit equal to only one year's salary or even less—instead of a benefit equal to twice their annual pay. Supplemental guaranteed issue term life insurance can make up this difference, as shown below, for executive groups of 10+ employees.⁽³⁾

⁽¹⁾ The group life insurance plan in this hypothetical example is assumed to offer a death benefit of two times the salary, up to \$200,000.

⁽²⁾ The group long-term disability insurance plan in this hypothetical example replaces 60% of income, with a maximum benefit of \$6,000 monthly.

⁽³⁾ Will consider groups between 5-9 employees if the employer has Principal® group term life/voluntary term life

Employee compensation level (annual)	Maximum group life insurance benefit ⁽¹⁾	Supplemental life insurance	Total compensation replaced
\$200,000	\$200,000 (or 1x compensation)	\$200,000	\$400,000 (or 2x compensation)
\$400,000	\$200,000 (or ½ x compensation)	\$600,000	\$800,000 (or 2x compensation)

Long-term disability benefits

The benefits provided by the group long-term disability plan shown on the previous page replace up to 60% of the income of rank-and-file employees, but a lower percentage of income is replaced as salary levels grow higher. However, with employer-paid individual Disability Income insurance, a supplemental policy can be designed for each affected employee to help protect additional income not protected under the group plan. The employer can choose to provide a policy for each key employee that brings the total coverage level to 60%.

Employee compensation level (annual)	How much of their income is replaced by the group long-term disability plan? ⁽²⁾	Supplemental plan monthly benefit	Total percentage of income replacement
\$200,000	\$600,000 (36% replaced)	\$4,000	60%
\$400,000	\$600,000 (18% replaced)	\$14,000	60%

Acquiring coverage can be easy.

We know your key employees are busy. That’s why we offer options to make the application and underwriting process for term life insurance and Disability Income insurance easy. With our Guaranteed Issue/Guaranteed Standard Issue underwriting, proposed insureds are only required to answer a few questions, and there are no medical exams to take—making the process quick and worry-free for your employees.

All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer and/or insurance agency selling the policy, or by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

You focus on your business. We'll focus on your plan.

It takes a lot of work to run a company, to say the least. And we understand you may not have time to think about business transfer strategies, employee retention programs, or retirement planning. That's okay. That's why we're here.

How do you get started?

Together with your financial professional, Principal will help you identify the right solutions for your organization, then work with you to implement them properly. Staffed with attorneys, CPAs, and plan design specialists, our Business and Advanced Solutions team is ready to assist you with design consultation and sample plan documents. But, we don't stop there.

Your needs may change. Regulations may change. We can help you keep up with both.

You don't have to take care of the ongoing management of your plan all by yourself. Our Business Market Administration team provides dedicated, ongoing support for your employer-owned and employer-sponsored plans funded with life insurance. And we'll be there not just today, but throughout the life of your plan.

Administrative services

Plan-level consulting. Reviews your specific needs, then helps you design, implement, and administer an effective plan.

Dedicated administrator. Personally assists you with enrollments, policy adjustments, service requests, policy illustrations, and more.

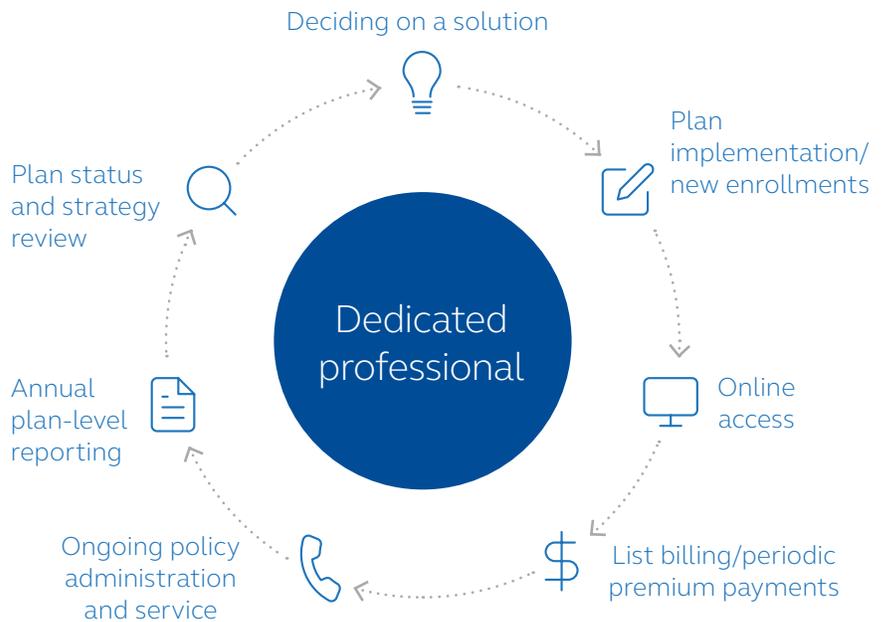
Servicing options. A full range of servicing options are available for plan administration.

List billing. Delivers consolidated payment reminders covering all policies under your plan—billed annually, semiannually, quarterly, or monthly.

Online access. Allows you to view policy information 24/7. Policy owners may also make changes or initiate service requests.

Plan review services. Offers a customized summary of the policies and plan to help you assess and make sure your goals are on track.

Supporting you every step of the way.



Getting started

Your customized planning considerations

We're here to help you achieve your goals. We understand that some of your goals are more important to you than others. So, review each planning area, prioritize what's most important to you and your business, and complete the action items below based on your priorities.

Protect you and your business	Priority ranking	Target date
<p>Know the value of your business. Understanding the value of your business is an integral part of the planning process. And, as there are many different methods to value a business, there is really no one method that's always appropriate for every business. So, obtaining a value that may be consistent with the value you need to protect, is a great start. Principal® offers a complimentary informal business valuations for certain businesses.</p>		
<p>Business succession planning. In order to help you successfully transition out of your business, numerous buy-sell and transfer strategies are available. Principal can consult with you to identify a solution best suited to your unique needs and company characteristics.</p>		
<p>Buy-sell agreement. Businesses with two or more owners need a buy-sell agreement fully funded with life and disability insurance. If you don't have one, we offer sample agreements you can share with your tax and legal advisors. If you already have an agreement in place, ask your financial professional about the complimentary buy-sell review services offered by Principal.</p> <ul style="list-style-type: none"> • A cross purchase buy-sell agreement 		
<p>Buy-sell agreement funding. A properly funded and well-drafted agreement that reflects your goals and objectives can protect you during both planned and unplanned events. Do you have adequate funding in place?</p>		
<p>Family business succession planning. Exiting a family business often means balancing competing needs of your family members, whether they are involved in the business or not. Principal can review your specific situation and present you with a personalized planning report that includes planning considerations and action steps unique to your business and family.</p>		
<p>Estate tax analysis. Due to the significant value of your business, it's important that you consider your current estate tax exposure. Principal can offer you an estimate of this exposure and help you analyze different techniques to help you meet your specific goals and objectives.</p>		

Protect you and your business	Priority ranking	Target date
<p>Key person protection for owners. If you or another owner become disabled or pass away, key person life or disability insurance can help you prepare for the unexpected by helping to protect the integrity, cashflow, and on-going success of your business.</p>		
<p>Overhead Expense Insurance. If you or another owner become disabled, this type of policy may help keep the business running.</p>		
<p>Debt coverage protection. Ensuring that you have appropriate personal life and disability insurance in place, can protect you and your business from calls on any outstanding debt or loans payable.</p>		
Protect your lifestyle	Priority ranking	Target date
<p>Business Owner Retirement Analysis. This personalized report can help you evaluate whether you have the right plans in place to figure out how much you can rely on your business for retirement income. It can identify any gaps and if needed, direct you to strategies to help you achieve retirement readiness.</p>		
<p>Principal® Bonus. As a profitable C corporation, this nonqualified retirement plan could complement other retirement plans you currently have in place.</p>		
<p>Individual life insurance. Your family depends on your income. Life insurance can help them cover the costs your salary helps pay, like mortgages, utilities, groceries college funding, and any other personal debt or expenses.</p>		
<p>Disability income insurance. Protecting your income using personal Disability Income insurance can be a smart move. It provides monthly benefit payments if you're too sick or hurt to work.</p>		
<p>DI retirement security. Keep your retirement plan on track - no matter what life brings. If you become disabled, it can help you continue to save for retirement.</p>		
<p>Legacy and estate planning. Preserving all that you've built for the next generation takes careful planning. But a proper plan helps ensure assets-both personal and business-meet your lifetime objectives and will be distributed the way you want.</p>		

Protect your lifestyle	Priority ranking	Target date
<p>Irrevocable Life Insurance Trust. Consider a discussion with your attorney to implement an irrevocable life insurance trust to help protect your estate. In many cases, life insurance is a common funding solution.</p>		
Protect your business and key employees	Priority ranking	Target date
<p>Key person insurance for key employees. It's likely that your business relies heavily upon the talents of your employees. Consider key person life insurance and key person replacement disability insurance on all key employees integral to the success of your business.</p>		
<p>Qualified plans. These plans offer business owners an opportunity to provide a benefit to all employees. They provide a tax-deduction to the employer and an income-tax deferral to all participants on contributions made to these plans.</p>		
<p>Recruit, reward, retain, retire key employees. Consider the following to help fulfill a valuable benefit for select key employees that can also help you recruit, reward, retain, and retire those who are vital to the success of your business.</p> <ul style="list-style-type: none"> • A Principal® Deferred Comp – SERP 		
<p>Supplemental life and disability insurance coverage. Protecting your business is important. Consider whether Principal Guaranteed Issue Term Life insurance, and Guaranteed Standard Issue Disability Income insurance may be available to provide flexibility and easy enrollment.</p>		

No one knows your business and your specific needs as well as you do. By working closely with your financial professional, you'll be able to formulate a plan that works for you. Whether it's analysis of your current plans, assistance with future plans, insurance protection, or all three, Principal is here to help.



You benefit from a company that knows business.

As the owner of a business, 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 owners. We help business owners like you every day. This means we have the expertise, solutions, and services to consult with you on financial solutions that help address specific needs.

- No. 1 provider of nonqualified deferred compensation plans.⁽¹⁾
- No. 1 provider of small-case business life insurance and corporate-sponsored individually owned life insurance.⁽²⁾
- No. 1 provider of Overhead Expense and Disability Buy-Out insurance.⁽³⁾
- No. 2 provider of Total Group Benefits.⁽⁴⁾
- Preparer of thousands of informal business valuations since 2011.
- Reviewer of more than 2,500 buy-sell agreements since 2014.

⁽¹⁾ Based on total number of NQDC plans (excluding 457 plans), PLANSPONSOR Defined Contribution Record-Keeping Survey, July 2023.

⁽²⁾ 2022 COLI/CSIO survey of participating life insurance carriers, IBIS Associates, Hamilton, VA.

⁽³⁾ Based on participants in the LIMRA Fourth Quarter 2022 Individual Disability Income Insurance Sales (February 2023).

⁽⁴⁾ Based on participants in LIMRA's Fourth Quarter 2022 U.S. Workplace Benefits Life Insurance, Disability Insurance, Dental and Vision Plans, and Supplemental in-force survey (April 2023).



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The previous pages depict certain business planning options. All of these options are based on the information you shared with us for this purpose and the assumptions stated throughout the report. Of course, any variance in the information or assumptions could change the results.

All assets assume specific growth rates, calculated based on information from the client. These individual rates are used to project the possible growth of the business. These projections are made to estimate future business insurance needs.

Although the informal business valuation from Principal can provide a valuable starting point in helping you determine the value of your business, the valuation will not be a substitute for a formal valuation nor does it establish a value for tax purposes. A formal valuation should be constructed with the guidance of your legal and/or tax advisors.

Solutions outlined in this report do not imply a recommendation that a specific business planning option should be implemented. Rather it represents a summary of potential considered strategies, which each individual should discuss with his or her tax advisor, attorney, and/or other professional advisor before taking any action.

Because your business planning goals may change in the future, periodic monitoring should be an essential component of your program.

All guarantees and benefits of the insurance policy are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer and/or insurance agency selling the policy, nor by any of their affiliates, and none of them makes any representations or guarantees regarding the claims-paying ability of the issuing insurance company.

Disability income insurance has certain limitations and exclusions. For costs and complete coverage details, contact your Principal representative.

Individual disability insurance Series 700 and Series 800. Not all products available in all states.

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Customer confidential.

Not FDIC or NCUA insured
May lose value • Not a deposit • No bank or credit union guarantee Not insured by any Federal government agency

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