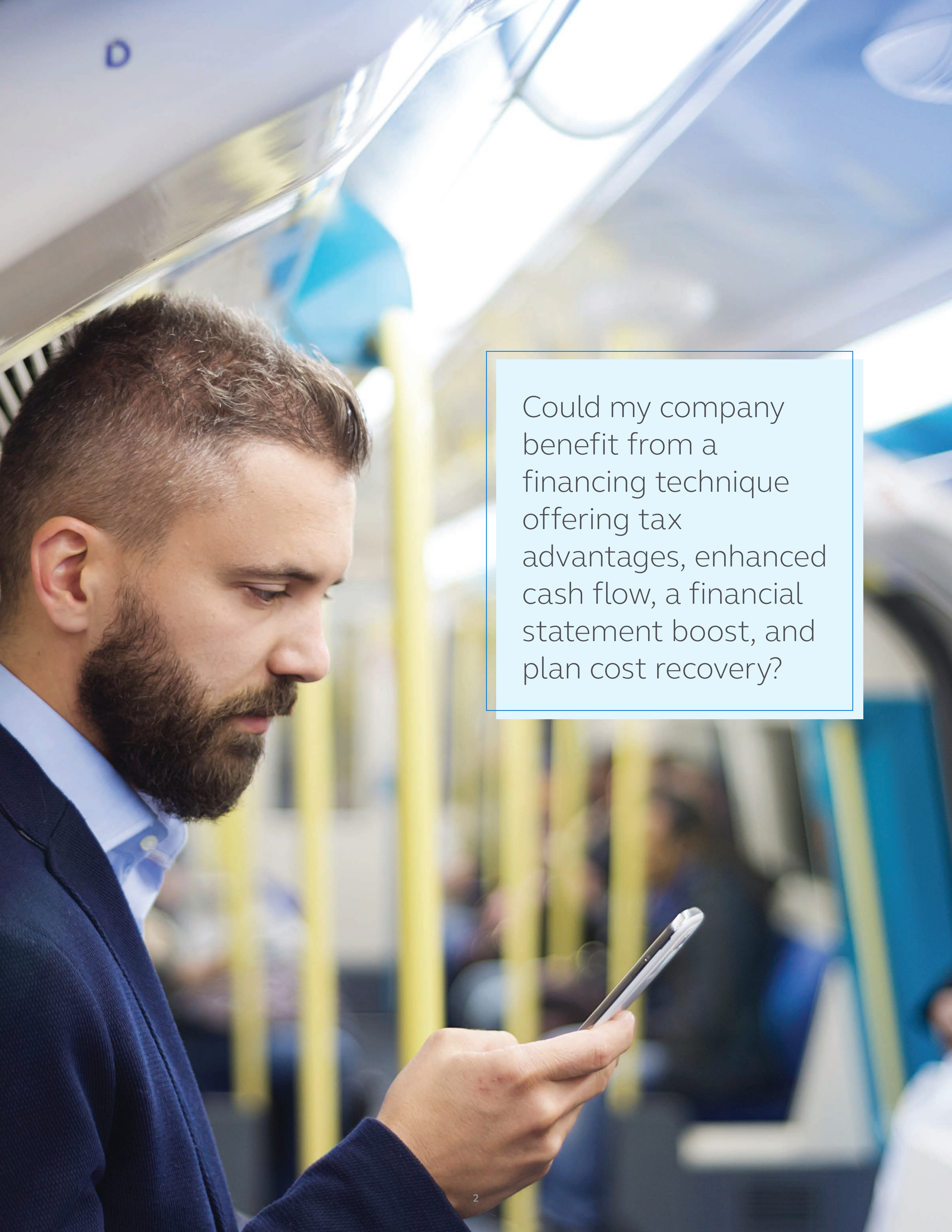
Principal®

Corporate-owned life insurance

Add a little life to your deferred comp plan.



Could my company benefit from a financing technique offering tax advantages, enhanced cash flow, a financial statement boost, and plan cost recovery?

Consider some common financing options

You've taken the first step toward recruiting, rewarding, retaining, and retiring key employees by implementing a nonqualified deferred compensation plan for them. Now it's time to explore how you can finance your plan.

Each method has pros and cons, but what's most important is selecting one that makes sense for your organization. We'll help you through the process.

Company cash

The organization uses employee plan contributions for company operations and pays benefits from cash or credit line.

Financed with taxable investments

Contributions are used to purchase mutual funds and/or individual securities, and benefits may be paid from investment proceeds.

Financed with corporate-owned life insurance (COLI)

Contributions are used to pay insurance premiums, and benefits may be paid from accumulated policy values to provide flexibility.

TIP: Use dual financing to leverage taxable investments for short-term plan distributions while taking advantage of the benefits of COLI for long-term distributions.

Now for a closer look at life insurance

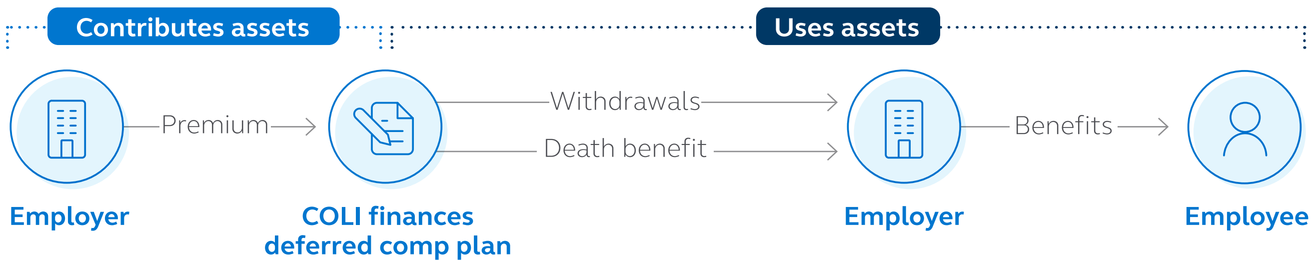
Many people know life insurance can help provide financial security for individuals and families.[1] But did you know organizations of all sizes use it as an effective corporate financing tool? In fact, of the companies who have deferred comp plans with Principal®, COLI is the most popular way to finance their plans. Ask yourself, "Could my company benefit from a financing technique offering tax advantages, enhanced cash flow, a financial statement boost, and plan cost recovery?" If the answer is "yes," life insurance might be a good choice.

In this guide, we'll examine how COLI can be used to finance a deferred comp plan, the benefits it offers, and what to consider.

[1] In exchange for the death benefit, life insurance products charge fees, such as mortality and expense risk charges and surrender fees.

How it works

COLI policies are owned by the employer and insure the lives of eligible deferred comp plan participants.



- Employer purchases a Principal variable universal life insurance policy. Premium payments are generally equivalent to the participant deferrals and employer contributions to the plan.
- Each payment covers the charges and fees associated with the policy. Any excess goes to one or more investment sub-accounts selected by the employer.
- Earnings grow tax-deferred.
- Distributions from the policy may be used to pay benefits to the deferred comp participant.
- Employer receives values from the policy in two ways:
  - Employer takes withdrawals from the policy as needed.
  - If the insured deferred comp participant dies while the policy is in force, a death benefit is paid to the employer.

What makes financing with life insurance unique?

There are **tax advantages.**

No matter what you believe about the future of tax rates, history has shown the likelihood that they'll fluctuate many times over the lifetime of a plan. Life insurance offers benefits in any tax environment and can be particularly effective during periods of moderate or higher taxes, with four main advantages:

- Any death benefit paid to your company is received income tax-free.[2]
- The policy's cash value grows tax-deferred.
- Policy values may be transferred between investment sub-accounts tax-free.
- You'll have access to cash value through tax-free withdrawals and policy loans.[3]

It enhances the **profit and loss** statement.

A policy's cash surrender value is carried on the books as an asset. This offsets the liability of the future deferred comp benefits. And when the policy has a high, early cash surrender value rider,[4] values may approach 100% of premiums paid beginning as early as year one, providing a balance sheet boost.

You get **cash flow** relief.

Accumulated life insurance policy values provide a ready source of cash to pay participant benefits that may be needed on short notice. So you don't have to dip into cash reserves or impact the cash flow needed to fuel your organization's growth.

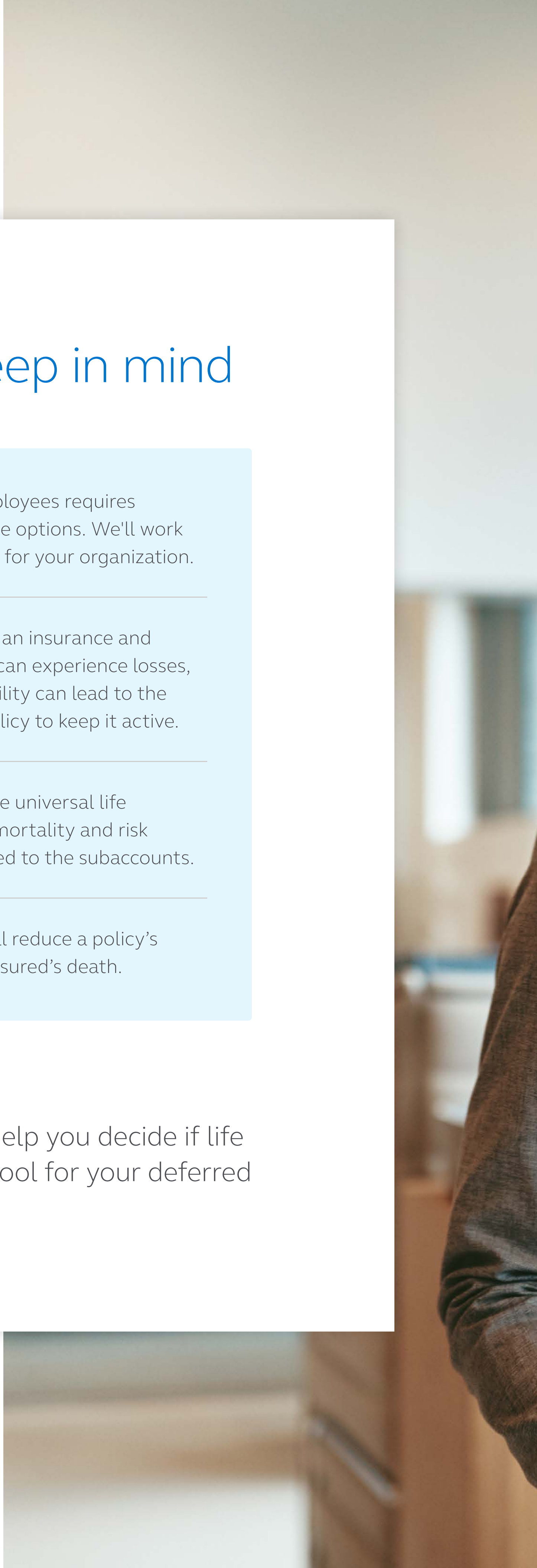
It can help you recover **plan costs.**

The number one thing life insurance does is pay a benefit at the death of the insured. Proceeds paid to the organization can be used to help recover plan costs. Or proceeds can be used to pay out tax-deductible deferred comp benefits for future participants or paid to a deceased executive's family as a survivor benefit. No other plan-financing option offers this benefit.

[2] When life insurance is owned by an employer on the life of an employee, the tax code requires certain conditions and requirements be met to keep proceeds from the death benefit income tax-free. This is covered in Internal Revenue Code (IRC) 101(j).

[3] Distributions from a life insurance policy are typically received income tax-free. If the policy is a Modified Endowment Contract (MEC), however, distributions may be subject to current income taxes.

[4] Availability varies by product and state.



A few things to keep in mind

Getting life insurance coverage for employees requires underwriting. The good news—you have options. We'll work with you to determine what works best for your organization.

Variable universal life insurance is both an insurance and investment product. The policy owner can experience losses, including loss of principal. Market volatility can lead to the need for additional payments to the policy to keep it active.

In exchange for a death benefit, variable universal life insurance products have fees, such as mortality and risk expense charges, and fund expenses tied to the subaccounts.

Taking withdrawals and policy loans will reduce a policy's death benefit amount payable at the insured's death.

Want to learn more?
Your financial professional can help you decide if life insurance is the right financing tool for your deferred comp plan.

Let's get started today. We can help by providing you with financial models to compare your options.

Learn more

Contact your financial professional or go to **principal.com.**

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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.

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