Principal

Planning report | Business solutions

Strategies for your family business

Presented to:
Husband and Wife

Presented by:
Valued Producer

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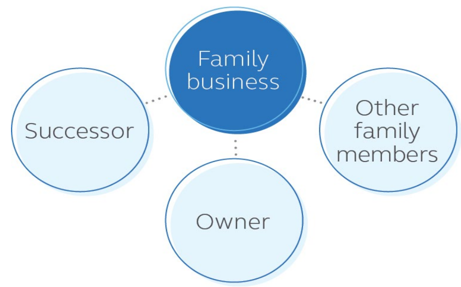
Your business

You’ve put in long hours growing your business, and your legacy, so you can pass it on intact. Since no one knows what tomorrow will bring, now is the time to plan for that transition. Thankfully, you have options. And we'll help you through some simple steps to create a strategy that allows you and your family to:

- protect the legacy you've worked hard to build
- keep peace in the family

One of the most challenging parts of exiting your family business is balancing the competing needs of your family members to:

- Provide sufficient retirement income for exiting owner
- Leave a healthy business to support itself and your successor
- Assure other family members of an equitable inheritance



Your personalized family business planning report from Principal® uses information you provided to develop a starting point. It'll help you begin creating a plan for your financial future, and for the next generation’s ownership. From here, we’ll work with you and your tax and legal advisors to develop solutions that work best for you. We understand about competing needs in family business planning strategies. This report can help you sort it all out.

Reviewing this personalized report is an important next step.

Based on the information you've provided, we'll look at four planning categories designed to help you and your family work together to realize your long-term planning goals:

Buy-sell and succession strategies

- Informal business valuation
- Buy-sell planning
- Buy-sell funding

Retirement income

- Retirement analysis
- Supplemental income
- Chronic illness protection

Business and income protection strategies

- Key person protection
- Business protection
- Income protection

Legacy and estate planning

- Wills and trusts
- Inheritance equalization
- Estate taxes
- Gifting techniques

Your profile

You

Name	Date of birth	Occupation	Number of remaining working years	Notes
Husband	08/07/1961		7	
Wife	01/01/1962		7	

Your children

Name	Date of birth	Spouse	Number of children	Notes
Son 1	01/01/1990		3	
Son 2	01/01/1992		2	
Son 3	01/01/1994		0	
Son 4	01/01/1988		0	

Your parents

Name	Date of birth	Living?	Number of children	Do they have an estate plan?
Father	01/01/1930	No	0	NA
Mother	01/01/1936	Yes	3	Yes
Father-in-Law	01/01/1930	No	0	NA
Mother-in-Law	01/01/1936	No	1	NA

Summary information

Business name	Successor(s)	Entity type	Description
ABC Company	Son 1	LLC	Construction

Your goals

Plan for your transition with a succession strategy

If you're like most family business owners, you haven't given much thought to how, when, and to whom you'll transfer your business. Too often, everyday business can get in the way of long-term planning. But someday, you'll leave your business, whether by a planned or unplanned event.

It's important to make plans to exit your business on your terms - no matter what the circumstances are. Proper planning can help protect you and your family under many contingencies including retirement, death, disability, personal bankruptcy, or even a divorce.

Key items to consider

Who – To whom will you sell or transfer the business?

Timing – When do you want to transition out of the business?

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

To whom will you transfer or sell your business?

FAMILY			NON-FAMILY			
Sell to family	Bequest to family	Combination of gift, sale, or bequest	Sell to co-owner or business	Sell to third party	Sell to employee	Sell to an employee stock ownership plan (ESOP)

Your goals (continued)

Who

You identified your family as the likely successor to your family business. As you are preparing for your business succession, it's equally important that your identified successor also prepares. Coordinating resources helps ensure a smoother, more efficient, and time-controlled transfer. Consider sharing this report with your successor in order to communicate the potential succession plan.

Timing

You indicated that your plan is to transition the family business ownership during your lifetime. Ensure this goal can be accomplished. Coordinate your legal documents with funding sources to make sure sufficient funds are available before planned and unplanned events occur.

Asset distribution

Your goal is to treat heirs as fairly as possible. This means that the inheritances might not be exactly equal. This goal may require additional funding strategies. Review the Inheritance Equalization page to compare potential asset distribution and funding scenarios.

Retirement income

You are unsure if you have adequate income-producing assets and savings to generate enough income for your retirement needs. Review the Retirement Analysis page to further consider this issue.

Legacy and estate planning

You are unsure if you will have to pay federal estate taxes. Review the Estate Tax Protection and Gifting pages to determine your potential federal estate tax liability and examine common techniques to reduce that liability.

Financial summary

Following is a summary of your financial position based on the information you provided:

Real estate	Owner	Value	Liabilities
Residence	Joint	$750,000	$0
Business building	Joint	$1,700,000	$0
Vacation home	Joint	$500,000	$0
	Subtotals	**$2,950,000**	**$0**

Business	Owner	Value	Liabilities
ABC Company, LLC	Joint	$8,000,000	$0
	Subtotals	**$8,000,000**	**$0**

Other assets	Owner	Value	Liabilities
Personal property	Joint	$100,000	$0
Vehicles	Joint	$250,000	$0
Collectibles	Joint	$50,000	$0
Future inheritances	Joint	$0	$0
Other	Joint	$0	$0
	Subtotals	**$400,000**	**$0**

This data is provided for informational purposes and is based on information you provided which may include assets that are not held by any member company of the Principal Financial Group®. Any assets not held by Principal Securities, Inc. may not be covered by SIPC. Refer to the financial statements you receive from your financial services provider(s) for information regarding SIPC membership.

Financial summary (continued)

Personal assets	Owner	Value	Annual contributions
Cash & equivalents	Joint	$250,000	$0
Investments	Joint	$500,000	$0
Annuities - you	Husband	$0	$0
Annuities - spouse	Wife	$0	$0
Retirement plans - you	Husband	$200,000	$0
Retirement plans - spouse	Wife	$200,000	$0
IRAs - you	Husband	$0	$0
IRAs - spouse	Wife	$0	$0
Roth IRAs - you	Husband	$0	$0
Roth IRAs - spouse	Wife	$0	$0
Other	Joint	$0	$0
	Subtotals	$1,150,000	$0
	Total	**$12,500,000**	

Income sources	Annual income	Age income begins	Age income ends
Wages (W-2, guaranteed payments) - you	$100,000	59	64
Wages - spouse	$100,000	57	64
Social Security - you	$30,000	67	90
Social Security - spouse	$30,000	67	90
Rental income	$0	59	90
Business income (K-1, dividends)	$400,000	59	64
Investment income	$0	59	90
Pension income - you	$0	65	90
Pension income - spouse	$0	65	90
Deferred comp income - you	$0	59	90
Deferred comp income - spouse	$0	59	90
Other income	$0	59	90

Life insurance	Insured	Face amount	Owner	Beneficiary
Principal Term	Husband	$1,000,000	Husband	Wife

Disability insurance	Insured	Benefit amount	Group or individual	Elimination period
Principal Disability	Husband	$1,500 per month	Group	180 Days

Informal business valuation

Valuing a business

It's important to know the current value of your business so you know how much it can contribute to your retirement income goal. There are different methods for determing value and no one method is always appropriate. Ultimately, 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.

Here are some considerations when valuing a business[1]:

- Nature and history of business
- Outlook for 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

[1] Per IRS Revenue Ruling 59-60

The informal valuation of your business

According to the information you submitted, your business is estimated to have a value of $8,000,000.

Owner	Ownership %	Value today
Dad	25%	$2,000,000
Mom	25%	$2,000,000
Uncle	25%	$2,000,000
Aunt	25%	$2,000,000
Totals	**100%**	**$8,000,000**

Comments and considerations

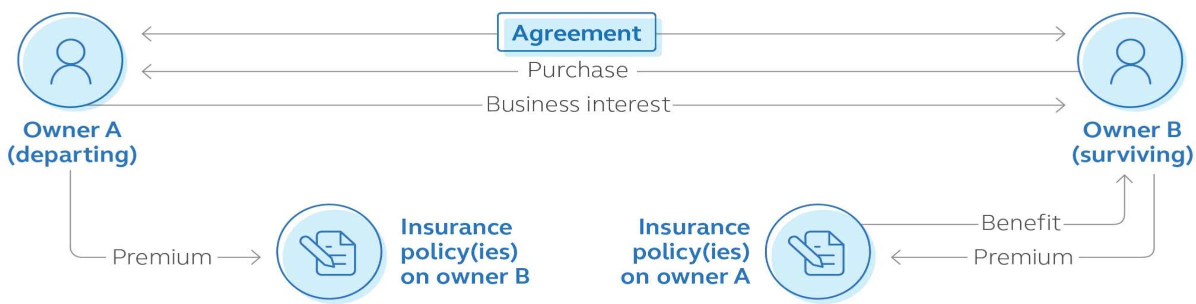
- Understand the value of your business and how this relates to your business succession goals.
- Explore whether a complimentary informal business valuation from Principal is appropriate for you.

Buy-sell and succession strategies

Do you and your co-owners have a strategy in place to transfer your business to the right people, at the right time, for the right amount of money? Transitions are more successful when you have an established plan for your departure – whether expected or unexpected. You can protect your business by putting a buy-sell agreement in place. A cross purchase buy-sell agreement 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.

How a cross-purchase buy-sell works

Once the agreement is in place, each owner purchases a life and/or disability buy-out insurance policy on each of the other owners. Each owner is the premium payer and beneficiary of the policies they own. 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.

Taxes could be minimized upon a subsequent sale – Insurance proceeds are received income tax-free. Remaining owners receive an increased cost basis due to 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 are 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.

Family-owned businesses may require additional planning – If departing owner's family members remain owners, special planning may be necessary.

Comments and considerations

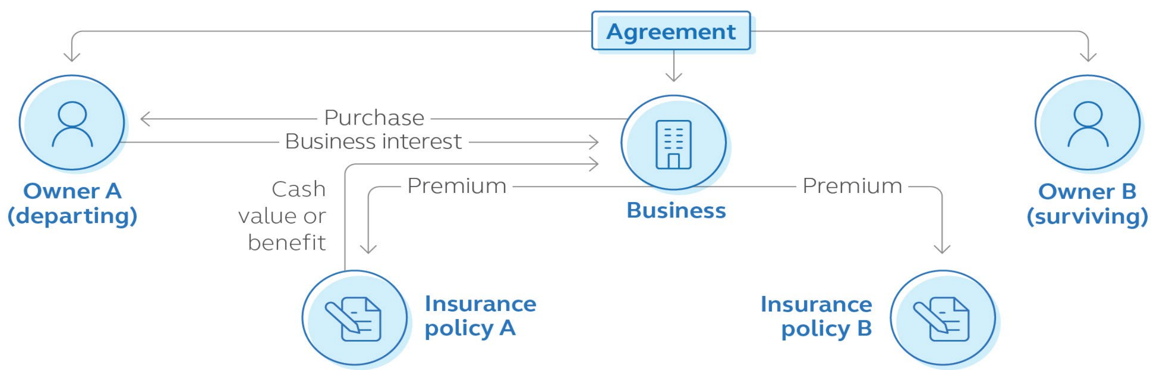
- Consider establishing a buy-sell agreement with your successor.
- Discuss with your legal advisor(s) whether a cross purchase buy-sell is best suited for your needs.
- Review the buy-sell funding page to examine funding options.

Succession strategies
Buy-sell arrangements

Do you and your co-owners have a strategy in place to transfer your business to the right people, at the right time, for the right amount of money? Transitions are more successful when you have established a plan for your departure – whether expected or unexpected. You can protect your business by putting a buy-sell agreement in place. An entity-purchase buy-sell agreement arranges for the business (rather than
the other owners) to purchase a departing owner's interest. The purchase can be triggered by death, disability, divorce, retirement, or other events.

How an entity-purchase buy-sell works

Once the agreement is in place, the business purchases a life and/or disability buy-out insurance policy on each owner. The business is the owner, premium payer, and beneficiary of those policies. Upon the triggering event, the business purchases 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.
Fewer policies are needed – The business owns and pays premiums on one policy per owner.

Remaining owners may pay higher taxes later – Since the remaining owners don't purchase the departing owner's shares directly, they might not receive a full increase in basis, depending on the structure of the business.

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.

Comments and considerations

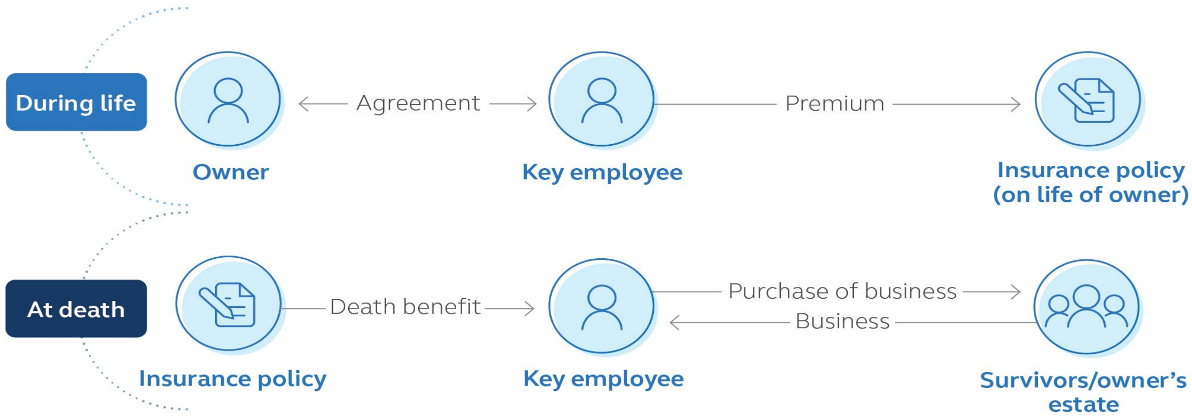
- Consider establishing a buy-sell agreement with your successor.
- Discuss with your legal advisor(s) whether a entity-purchase buy-sell is best suited for your needs.
- Please see the buy-sell funding page to examine funding options.

Buy-sell and succession strategies

Do you have a strategy in place to transfer your business to the right people, at the right time, for the right amount of money? Transitions are more successful when you have established a plan for your departure – whether expected or unexpected. One way you can protect your business is by putting a buy-sell agreement in place. A one-way buy-sell agreement arranges for a potential buyer, ideally a key employee, to purchase your business interest. The purchase can be triggered by your death, disability, retirement, or other departure.

How a one-way buy-sell works

Once the agreement is in place, the key employee (buyer) purchases a life and/or disability buy-out insurance policy on you for the agreed upon business purchase price. They are then the owner, premium payer, and beneficiary of the policy, and use the proceeds to purchase the business from you or your estate after the triggering event. Proceeds from the sale can then be used by you or your estate to help pay off any outstanding liabilities.



What you need to know

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

You're properly compensated – Selecting a buyer, implementing the agreement, and properly funding it helps assure you're compensated for the value of the business you created.

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

Business can avoid disruption – Having a plan in place, can help retain faithful, long-term employees.

Key employee can be protected – A "right of first refusal" provision in the agreement provides some security to the key employee that the business won't be sold to a third party with no recourse.

Key employee can be required to maintain the policy – This may mean paying the premiums and notifying you before any policy rights are exercised.

Disability buy-out insurance is available – Principal offers unique coverage for this purpose. Limitations may apply on coverage between certain family members.

Comments and considerations

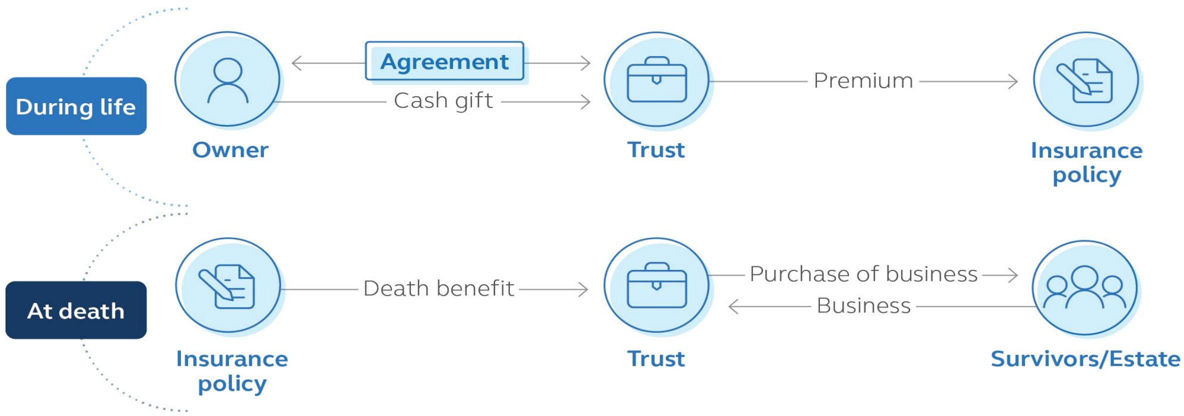
- Consider establishing a buy-sell agreement with your successor.
- Discuss with your legal advisor(s) whether a one-way buy-sell is best suited for your needs.
- Please see the buy-sell funding page to examine funding options.

Succession strategies

As you think about the future of your business and your family, some things might not be clear right now. It's okay to not have all the answers today, but that's where a little planning can be a big help. A no-sell buy-sell agreement can be a good solution when your major asset is your business and you have no identified buyer. Rather than agreeing to sell to a particular person or entity, you use an irrevocable life insurance trust (ILIT) to transfer the value of the business, rather than the business itself, to your family.

How a no-sell buy-sell works

You determine the value of your business interest and purchase a life insurance policy on your life for that amount. The owner and beneficiary of the policy is an ILIT for the benefit of your family. Upon your death, the ILIT uses the insurance proceeds to purchase your business interest from your estate. Your family gets the cash from the insurance. The ILIT retains the business interest or sells it when the time is right. The ILIT retains all growth potential until a future sale.



What you need to know

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

Family members benefit – They get cash from the insurance and are assured the amount is generally equal to the value of the business. It also prevents a forced sale at a potentially heavily discounted value.

The business isn't sold until the time is right – The ILIT holds onto the business interest until it's advantageous to sell – perhaps when the business goes public, when it's at the top of its business cycle, or when it matures and its stock peaks in value.

Taxes may be reduced – Proper planning can mean life insurance proceeds are income and estate tax-free. And, they may be used to pay estate taxes on the business interest, leaving the business intact.

Professional service businesses aren't a good fit – Values after death may be diminished, and trust ownership might not be permitted.

Comments and considerations

- Consider establishing a buy-sell agreement with your successor.
- Discuss with your legal advisor(s) whether a no-sell buy-sell is best suited for your needs.
- Please see the buy-sell funding page to examine funding options.

Buy-sell and succession strategies

Need for funding

Buy-sell agreements involve the selling and buying of a departing owner's interest according to the terms of that 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 options

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. Funds borrowed must be repaid (with interest) from earnings. A down payment is generally required.

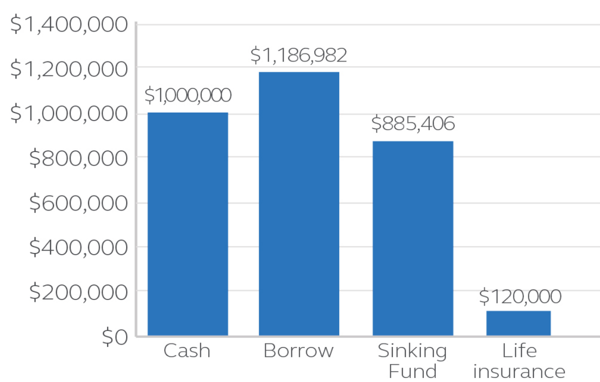
Savings - Doesn't assure sufficient funds will be available when needed because the timing of departure isn't predictable.

Installment sale - Requires repayment from earnings and is contingent on future success of the business in order to make payments.

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 is right 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.

Hypothetical funding method cost at end of 15 years



Cash	$1,000,000
Borrow	Represents five equal annual payments of $200,000 plus interest at 6%.
Sinking Fund & cash	Sinking fund of $234,594 (annual deposits equal to the life insurance premiums growing at 8%) plus the balance necessary of $764,406.
Insurance	Life – $1,000,000 face amount. Estimated premiums of $8,000 for Male, 45, Preferred, Nontobacco, UL Flex III policy. Insurance premiums paid for 15 years. Not valid without accompanying insurance illustrations. See illustrations for important information.

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

Comments and considerations

- If the business had to transfer tomorrow, would cash flow needed for daily activities be impacted?
- Consider fully funding the buy-sell with life and disability insurance.
- Consult your financial professional about what type of insurance will best meet your needs.

Buy-sell and succession strategies

If you're like many business owners, you're planning on your business playing a role in providing a portion of your retirement income. Succession strategies provide a means to transfer ownership of the business and help you meet retirement income goals. To protect yourself, your family, and your business, it's important to determine how you want to transition your business.

Common methods for transferring the business

Lump sum payment: The buyer purchases the business with a single payment. Oftentimes, the buyer finances part of the purchase price through a third-party lender.

Installment sale: The buyer makes a down payment to purchase the business and the balance of the purchase price is paid to the seller on a predetermined payment schedule of principal and interest.

Interest only sale: The buyer makes an initial down payment and then pays the seller interest for specified period of time. At the end of the period, the buyer makes a balloon payment to the seller, typically using a third-party loan.

Part gift, part sale: With business transactions between family members, the owner typically isn't looking to maximize the sales price of a business interest to a family member. On the other hand, the owner might not want to give the entire business away either. With a part gift, part sale structure, the owner can choose to receive less than the full value of the business from family members, while treating the rest of the transfer as a gift. For those concerned about federal estate tax, discounting might also be available to lower the gift tax value (see the Understanding entity discounts page for more information).

Employee Stock Ownership Plan (ESOP): This strategy enables an owner to establish an employee-owned company that offers a flexibile, tax-favorable way to exit the business, provide retirement benefits, and retain and motivate employees.

What you need to know

Payment terms: Terms can be tailored to match the exiting owner's business and financial needs.

Financial risk: If a seller accepts an installment note or interest-only note, there's risk that the buyer will default on the loan.

Purchase price: Typically, after tax-dollars are used to fund the purchase price.

Down payment: If the buyer is an employee and needs help saving for a down payment, a nonqualified plan may help with funding.

Supplement retirement income: Business owners may be able to supplement their retirement income with qualified and nonqualified plans, rental income, consulting agreements, and other arrangements.

Continued payments: Payment may be required, even if the seller dies.

Insurance: Helps ensure funds are available to make required payments.

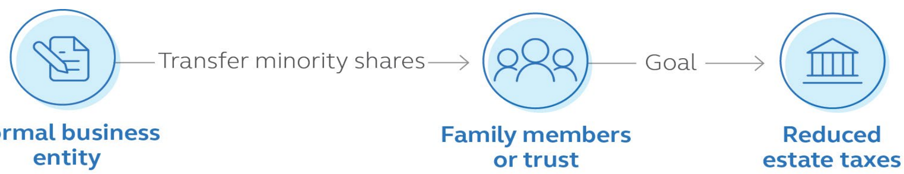
Multiple approaches: It's not uncommon for business owners to use a combination of approaches.

Buy-sell and succession strategies

Business owners are often looking for a solution to reduce their taxable estate while still maintaining control of their assets. The most common solutions involve gifting or otherwise transferring ownership of the assets in question. This can also reduce the owners' federal estate tax liability. Another common way to achieve the same goal is by employing an entity discounting strategy.

How entity discounting works

Owners first transfer real estate or other business assets into a formal business entity, such as an LLC or family limited partnership. Then, they gift a portion of that business entity (shares, membership units) to family members. The "discounting" technique can also be achieved by recapitalizing the business into voting and non-voting interests, with the non-voting interests gifted to family. By keeping the voting interests, the original owners are able to maintain control of the company.



The following hypothetical example shows how entity discounting may reduce an estate tax liability.

		No entity discounting		With entity discounting
Business value		$8,000,000		$8,000,000
Hypothetical entity discount	x	0%	x	30%
Less discount	-	$0	-	-$2,400,000
Post-discount value	=	$8,000,000	=	$5,600,000
Less estate tax exemption	-	$27,220,000	-	$27,220,000
Taxable portion	=	$0	=	$0
Federal estate tax rate	x	40%	x	40%
Estate tax liability[1]	=	$0	=	$0
Hypothetical difference		**$0**		

[1] Based on $xx per spouse.
For illustrative purposes only. This hypothetical example is not intended to predict specific values and is used to help explain how discounting works.

Comments and considerations

- You indicated you would like to transition the business to the family using minority interests and entity discounts.
- Taking advantage of entity discounts may help you achieve these goals.
- Please consult with your tax and legal advisors about appraising the value of any gifts and determining the appropriate discounts (if any).

Buy-sell and succession strategies

Oftentimes, family members or key employees don't have the resources to purchase the business outright. An installment sale can help facilitate the transaction, provide long-term income, and spread the capital gains tax burden over time.

How an installment sale works

The buyer makes a down payment, then using an installment note, the buyer pays the remaining amount based on a predetermined payment schedule of principal and interest. Life insurance is often purchased to insure both the buyer and seller, protecting the sale in the event of an untimely death.

	Installment note			Cost to buyer		Net to seller			
Year	Beginning-of-year note value	Interest & principal payment	End-of-year note value	Pre-tax cost	After-tax cost	Annual proceeds	Personal income taxes	Capital gains taxes	Net proceeds to seller
0	0	0	0	224,000	344,615	224,000	0	36,800	187,200
1	2,016,000	261,081	1,855,719	261,081	401,663	261,081	35,280	26,332	199,469
2	1,855,719	261,081	1,687,423	261,081	401,663	261,081	32,475	27,649	200,958
3	1,687,423	261,081	1,510,713	261,081	401,663	261,081	29,530	29,031	202,520
4	1,510,713	261,081	1,325,168	261,081	401,663	261,081	26,437	30,482	204,161
5	1,325,168	261,081	1,130,345	261,081	401,663	261,081	23,190	32,007	205,884
6	1,130,345	261,081	925,781	261,081	401,663	261,081	19,781	33,607	207,693
7	925,781	261,081	710,989	261,081	401,663	261,081	16,201	35,287	209,593
8	710,989	261,081	485,457	261,081	401,663	261,081	12,442	37,052	211,587
9	485,457	261,081	248,649	261,081	401,663	261,081	8,496	38,904	213,681
10	248,649	261,081	0	261,081	401,663	261,081	4,351	40,849	215,880

Assumptions

Business value	$8,000,000	Note term (years)	10
Ownership interest to be sold	40%	Note interest rate	5%
Value of ownership interest	$3,200,000	Seller's income tax rate	35%
Less minority discounts	30%	Seller's capital gains rate	20%
Sales price	$2,240,000	Seller's basis	$1,000,000
Down payment	$224,000	Buyer's income tax rate	35%
Note value	$2,016,000		

* Work with your tax advisor to ensure note interest rates are consistent with current requirements.

Comments and considerations

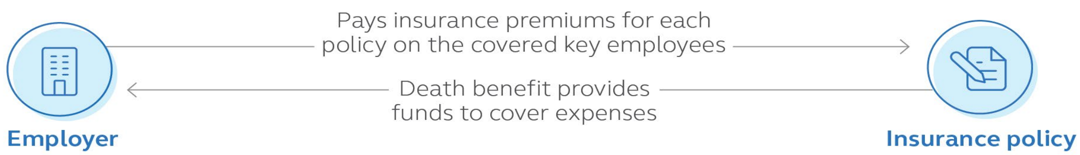
- Consider the after-tax cost of buying the business on an installment basis if transferring the business to a family member.
- Consider protecting the sale with life insurance.

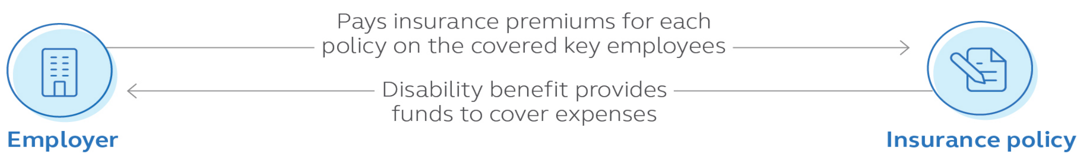
Buy-sell and succession strategies

Oftentimes, the most valuable assets of a 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. If their loss would create a financial burden that puts the future profitability of the business at risk, a key person insurance policy is a simple and efficient solution.

How key person protection works

Your business is the owner and beneficiary of a key person life insurance and/or key person replacement disability policy for each key employee chosen, which can include business owners. If the unexpected happens, the business receives funds, generally income tax-free, to help overcome the financial challenges of the loss.





Comments and considerations

- Identify the employees who are key to your business.
- Consider obtaining key person insurance on your key employees.

Buy-sell and succession strategies

Plans for select key employees

A nonqualified supplemental retirement plan is an effective tool to help recruit, reward, retain, and retire key employees. When properly designed and financed, these plans can help select key employees reduce the challenges created by qualified plan limits. These solutions can also be tailored to meet the needs of both the business and the plan participants.

Offering one of these plans for key employees can help:

- Enhance your total benefits package by offering a financial reward.
- Encourage loyalty by helping to secure the financial future of key employees.
- Motivate key employees to grow the business.
- Benefit from simplified government reporting and disclosure rules – or none at all.

Considerations for common nonqualified plans

			Nonqualified deferred compensation plans			
Considerations	**Bonus**[1]	**Loan Split Dollar**	**Select Reward**	**SERP**	**NQ Defined Contribution**	**NQ Defined Benefit**
Immediate business tax deduction	Yes	Yes[2]	No[3]	No[3]	No[3]	No[3]
Golden handcuffs	Yes, but limited	Yes	Yes	Yes	Yes	Yes
Immediate taxation to employee	Yes, but "gross-up" available[4]	Yes, but low until termination[5]	Yes, but low through the service period[6]	No, deferred until payout[7]	No, deferred until payout[7]	No, deferred until payout[7]
Cost recovery for business	No	Yes	Yes[8]	Yes[9]	Yes[9]	Yes[9]
Administrative support	Yes	Yes	Yes	Yes	Yes	Yes
Cost for administrative services	No	No	No	No	Yes	Yes
Who is allowed to contribute?	Employer & employee	Employer	Employer	Employer	Employer & employee	Employer
Limit on number of participants	No	No	No	Yes (1-5)	No	No
Subject to "top hat"[10]	No	No	Yes[11]	Yes	Yes	Yes

Comments and considerations

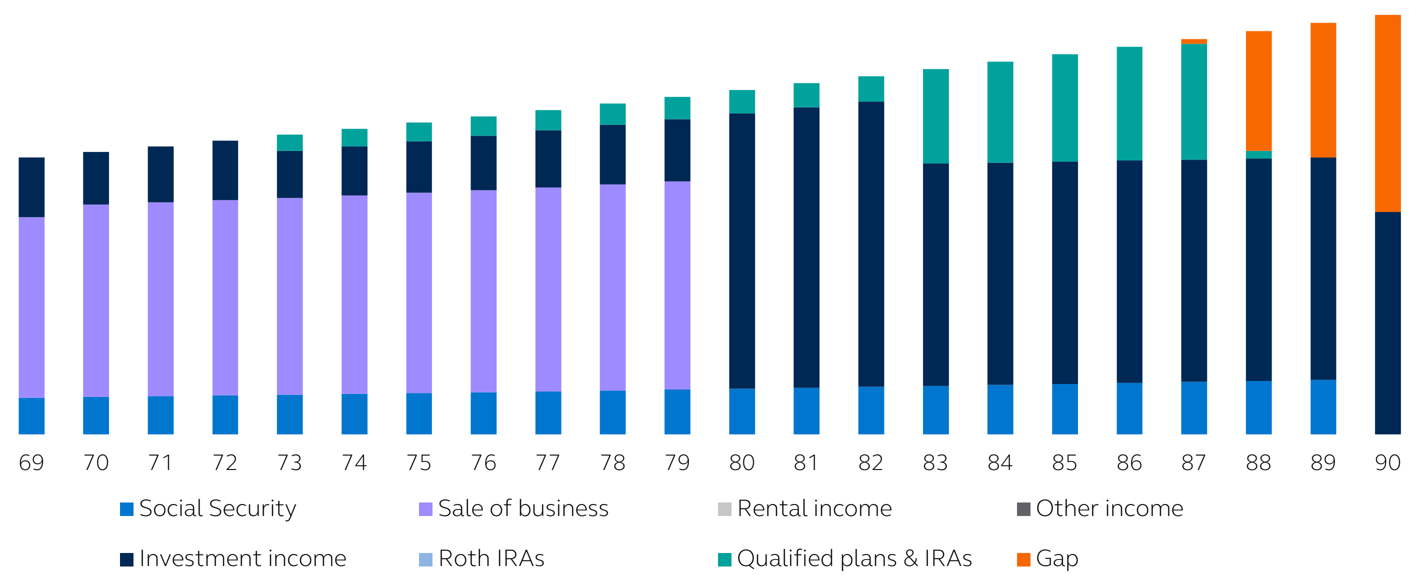
- Discuss with your tax and legal advisor(s) whether a key person retention plan can be beneficial to your business.

Retirement income

Let's look at your retirement income potential applying the proceeds from the sale of your business and other savings. Based on the information you provided, we've put together the following analysis:

Assumptions			
Current age	62	Qualified plans and taxable IRAs	$400,000
Spouse's age	62	Annual qualified plan contributions	$0
Retirement age	69	Roth IRA balance	$0
Mortality age	90	Annual Roth IRA contributions	$0
Desired annual income	$250,000	Investment account balance	$500,000
Annual Social Security income	$30,000	Annual investment contributions	$0
Age to begin Social Security	67	Deferred compensation income	$0
Spouse Social Security income	$30,000	Other income	$0
Spouse age to begin Social Security	67	Pre-retirement rate of return	5.0%
Rental income	$0	Post-retirement rate of return	5.0%
Business income	$400,000	Inflation rate	2.0%
Pension income	$0	Federal and state income tax rate	35%

Your retirement gap at age 69 is $168,823



Comments and considerations

- Based on the information you provided, you may not have enough savings and income-producing assets to support your retirement income goals.
- Consider qualified retirement plan and nonqualified plan options.
- Consider additional savings and strategies for supplementing your income.

Retirement income

Your family business will likely play a key role in providing income in retirement, either through rental income or your continued employment. A supplemental retirement plan may provide you with necessary additional income; which can be funded in a variety of ways. Diversifying your income sources based upon timing and income tax characterization can also be beneficial. See advantages and disadvantages of common financial tools below.

Investments | Financial vehicles such as stocks, bonds, CDs, or mutual funds.

Advantages	Disadvantages
• Long-term gains taxed at capital gain rates	• Earnings taxable to owner annually
• Flexible contributions	• No insurance death benefit
• Many investment options	• Distributions are treated as part basis, part gain

Annuities | Premiums into an annuity contract — fixed, indexed, or variable.

Advantages	Disadvantages
• Earnings accumulate tax-deferred	• Surrender charges may apply[1]
• No medical underwriting	• Income in respect of decedent at death
• Guaranteed death proceeds bypass probate process	• 10% penalty on earnings distributed prior to age 59 1/2
• Can provide a guaranteed income for life	• Has fees and expenses
	• Distributions are "gain first" (taxable at ordinary income tax rates), unless annuitized. If annuitized, distributions are treated as part basis, part gain.

Life insurance | Premiums into a life insurance policy — fixed, indexed or variable.

Advantages	Disadvantages
• Earnings accumulate tax-deferred	• Mortality cost of insurance
• Tax-advantaged distributions such as loans and partial surrenders (subject to policy limitations/charges)[2]	• Underwriting process
	• Owner may not be insurable
• Tax-free life insurance proceeds may bypass probate process and protect dependents	• Policy fees and expenses
	• Impact of loans and withdrawals[2]

Investing in mutual funds, variable annuities, or variable life insurance involves risk, including the potential for loss of principal. Guarantees are based on the claims-paying ability of the issuing insurance company.

[1] If the contract has surrender charges, withdrawals beyond the free withdrawal provision may have an additional charge.

[2] Withdrawals and loans taken from life insurance policies classified as modified endowment contracts may be subject to income tax and may also be subject to a federal tax penalty if the withdrawal or loan is taken prior to age 59½. Withdrawals and loans will also reduce the policy cash surrender value and may cause the policy to lapse. Lapse of a life insurance policy can cause loss of death benefit and adverse income tax consequences.

Comments and considerations

- A cash value life insurance policy can provide supplemental retirement income and provide a lump sum benefit upon your death.
- Consider whether investments, annuities, and/or a life insurance policy are best suited for your supplemental retirement income needs.

Retirement income

You can help protect your family from the hardships of a serious, long-term illness. Some life insurance policies have a rider that allows you to access part of your policy's death benefit if you're diagnosed with a chronic illness. The money could be used to help:

- Pay for quality care
- Cover medical expenses not paid by insurance
- Protect your retirement savings
- Stay more financially secure
- Live your best life possible

60% of adults have one chronic disease;

40% of adults have two or more[1]

[1] Centers for Disease Control and Prevention, cdc.gov/chronicdisease/resources/infographic/chronic-diseases.htm, May 2022.

$4,957 per month for homemaker services[2]

[2] Fidelity Retiree Health Care Cost Estimate, 2021.

About $300,000 average couple is expected to pay for medical expenses during retirement[3]

[3] Genworth Cost of Care Survey, 2021.

Most Americans turning age 65 will need **long-term care** services at some point in their lives.

Source: LongTermCare.gov, The Basics: Who Needs Care?, as of February 2020

Comments and considerations

- A chronic illness can interfere with retirement, succession, and estate plans.
- You indicated that you're concerned about a chronic illness.
- Consider purchasing a life insurance policy which includes provisions to protect you in case of a chronic illness.

Legacy and estate planning

Estate planning is important for both married and single people, to distribute your personal and business assets. It can also help minimize the impact of taxes and expenses while maximizing distributions to heirs.

Preservation techniques involve both estate and business planning. Many effective techniques are available to successfully help protect and transfer your assets.

Medical power of attorney

You reported that you do not have a medical power of attorney.
A medical power of attorney names an "attorney-in-fact" to make medical decisions on your behalf upon physician certification that you are unable to do so. Your attorney-in-fact has a legal obligation to always act in your best medical interest. Therefore, no court-appointed guardian is necessary to make such decisions.

Financial power of attorney

You reported that you are unsure if you have a financial power of attorney.
A financial power of attorney provides a designated person, your "attorney-in-fact," authority to make financial decisions on your behalf at your discretion either [a] immediately; or [b] upon physician certification that you are unable to do so. In the absence of a financial power of attorney, a court conservatorship proceeding would be necessary to appoint a representative conservator to make your financial decisions in the event you could not do so.

Living will

You reported that you are unsure if you have a living will.
A living will is a legal document that explains your end of life care instructions regarding pain medication, artificial life support, and resuscitation efforts. This document relieves your family from having to make these difficult decisions by obligating your health care provider to follow these previously written instructions.

Will

You reported that you have a current will in place.
A will allows you to direct how your assets will be distributed after your death. With a will, a judicial "probate" is likely required to settle your affairs. Consult with your legal and tax advisors whether additional planning may be appropriate.

Key:

Do not have	Unsure	Have

Legacy and estate planning

Revocable trust

You reported that you do not have a revocable trust.

A revocable trust, when properly funded, owns your assets for your personal use and control during your lifetime. This trust can be amended any time before you pass away and, upon your death, the trust assets pass outside of judicial probate and provide additional flexibility to your distribution plan. A common mistake is to fail to re-title or transfer assets into the trust. As a result, the assets that you intended to pass outside of judicial probate end up there anyway. Confirm with your legal and tax advisors that your trust has been properly funded.

Family trust

You reported that you are unsure if you have a family trust.

A family trust, also known as a bypass or credit shelter trust, is used by married couples to minimize the estate taxes payable. This arrangement is one of the strategies that can help both spouses fully utilize their estate tax exemption, though it is not the only strategy for doing so. Upon the death of the first spouse, the family trust receives assets from the deceased up to the amount that is exempt from estate tax under current law. This trust generally pays income for life to the surviving spouse. Assets inside a family trust are typically outside the reach of the surviving spouse's creditors. Upon the death of the surviving spouse, any remaining assets can be distributed to the heirs without being included in the surviving spouse's estate.

Irrevocable life insurance trust

You reported that you do not have an irrevocable life insurance trust (ILIT).

An ILIT is an irrevocable trust that owns a life insurance policy on your life. The objective is to exclude the death benefit from your estate for federal estate tax purposes and, ultimately, purchase assets from your estate, which can provide cash for estate taxes and other debts. Because it is irrevocable, it can be very difficult to undo once put into place.

Estate distribution plans

You reported that you have a distribution plan.

You reported your distribution plan attempts to treat heirs as fairly as possible. This means the inheritances might not be exactly equal. This distribution plan may result in a great deal of negotiations between your surviving children/beneficiaries if the assets are not easily divided. This distribution plan, when applied to the unique characteristics of a family business, can result in family conflict and litigation.

Comments and considerations

- You reported that your estate plans do not include:
  a medical power of attorney, a revocable trust, or an irrevocable life insurance trust.
- Consult with your legal advisor(s) about reviewing/updating your estate plans.

Legacy and estate planning

It's probably important to you to treat your 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.

First, decide what legacy you want to leave, and what "fair" looks like (because only you can). And if you can't leave an inheritance you think is "fair" without risks to the future success of the business, the use of life insurance can help. It can allow you to keep the business intact, while ultimately helping to maintain peace in the family.

How it works

You determine the amount of your business and non-business assets, and what a fair distribution looks like to your family. Then calculate how much more is needed to achieve your distribution goal. Life insurance is purchased in the amount needed to make up the difference. Upon your death, the business can go to one or more heirs, and the non-business assets and life insurance benefit goes to the others. Review the current and proposed plans below to see how adding life insurance to your estate can help you treat your heirs equitably, while keeping your business intact.

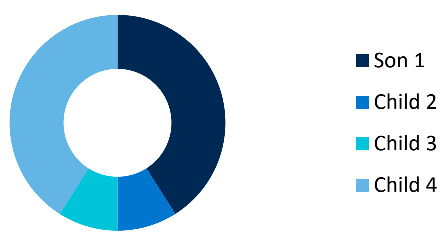
Current plan

Type	Total	Son 1	Child 2	Child 3	Child 4		
Business assets	$8,000,000	50%	0%	0%	50%	0%	0%
Other assets	$4,500,000	25%	25%	25%	25%	0%	0%

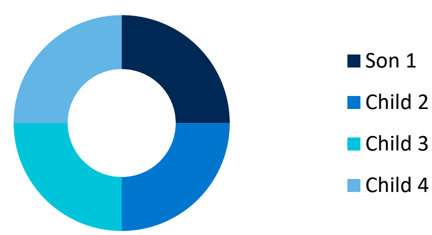
Proposed plan

Type	Total	Son 1	Child 2	Child 3	Child 4		
Business assets	$8,000,000	50%	0%	0%	50%	0%	0%
Other assets	$4,500,000	0%	50%	50%	0%	0%	0%
New insurance	$3,500,000	0%	50%	50%	0%	0%	0%

Current plan



Proposed plan

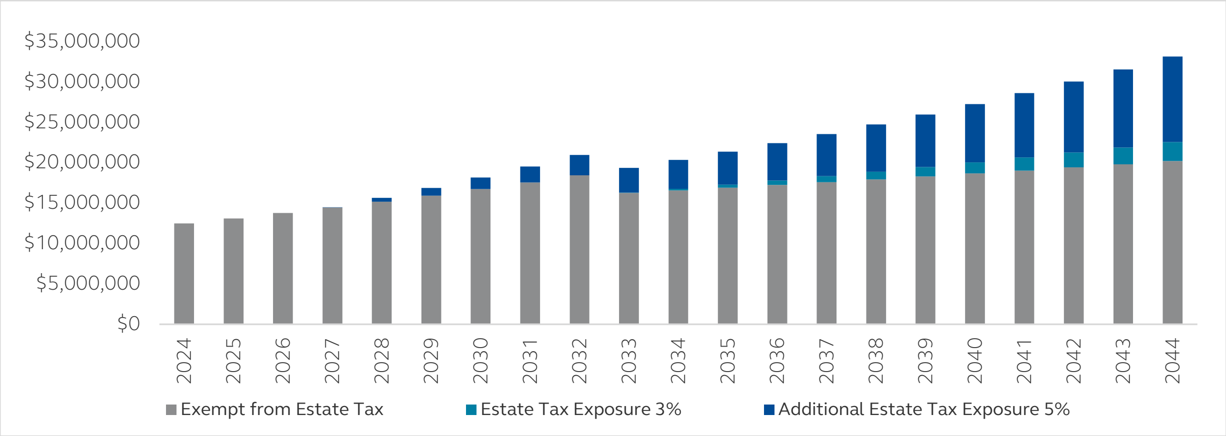


Comments and considerations

- You indicated that being "fair" is more important than being "equal."
- Consider purchasing life insurance to create fair inheritances among your heirs.

Legacy and estate planning

Death-related taxes can be devastating to a family business. The 2024 federal estate tax exclusion (which can be passed on without paying federal estate taxes) is $13,610,000 per person, and $27,220,000 for married couples (using portability) to combine each married person's respective federal estate tax exclusion. However, these exemptions are temporary and scheduled to sunset, or revert, to $6,805,000 per person, and $13,610,000 for married couples in 2026, if Congress does not take action otherwise. The chart below shows future values and estate projections for an estate worth $12,500,000 today.



		Estimated at 3% Growth		Estimated at 5% Growth	
	Estate Tax Exemption	**Estate Value**	**Estate Tax Exposure**	**Estate Value**	**Estate Tax Exposure**
2024	$27,220,000	$12,500,000	$0	$12,500,000	$0
2029	$15,026,540	$14,490,926	$0	$15,953,520	$370,792
2034	$16,590,514	$16,798,955	$83,376	$20,361,183	$1,508,268
2039	$18,317,268	$19,474,593	$462,930	$25,986,602	$3,067,734
2044	$20,223,744	$22,576,390	$941,059	$33,166,221	$5,176,991

For illustrative purposes only.

Comments and considerations

- Based on the information you provided, your estate might have a federal estate tax liability. As your estate grows, so too will your potential estate tax liability.
- Review these numbers with your tax and legal advisor(s).
- If you have insufficient funds to cover your federal estate tax liability, it may be necessary to liquidate business assets.
- Consider techniques to minimize potential estate and inheritance taxes.
- Consider a permanent life insurance policy to help pay any federal estate taxes.

Legacy and estate planning

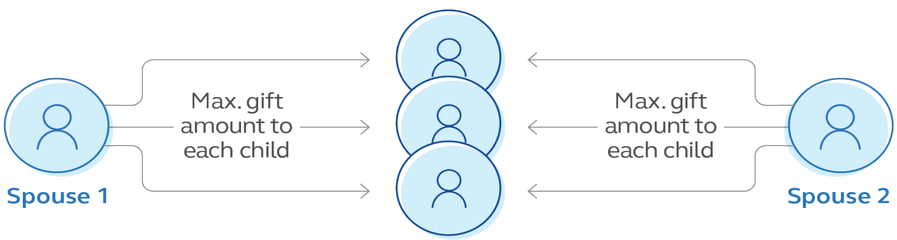
Gifting techniques can help you accomplish a variety of potential estate planning goals:

- Reduce federal estate taxes.
- Facilitate your business succession plan.
- Provide immediate use of the gift.
- Make additional support available to loved ones.
- Move future appreciation out of the taxable estate.

In 2024, the annual gift exclusion amount is $18,000. This is the amount you can gift without paying federal gift taxes or filing a federal gift tax return. The $18,000 is per person (donee), per year. There isn't a limit to how many people you can gift to each year. And if you're married, your spouse has the same annual gift exclusion, so you could gift a combined $36,000 to each person in 2024.

Example

A married couple with three children could gift $108,000 annually.



Your scenario

Number of donors		Your number of beneficiaries		2023 annual gift exclusion amount		Combined annual gift exclusions
2	x	**3**	x	**$18,000**	=	**$108,000**

Using this gifting method, you could possibly remove $108,000 worth of potentially taxable assets from your estate and transfer it to your children/heirs without paying any federal gift tax.

Legacy and estate planning

Another common use of the gift exclusion is to fund life insurance premium payments for a policy inside an irrevocable life insurance trust (ILIT). This creates a federal estate tax-free and income tax-free death benefit for the beneficiaries.

Hypothetical example

Year	Number of donors	Number of donees	Annual exclusion amount	Total annual gift	Annual investment	Trust assets after 5% growth	Annual life insurance premiums	Life insurance death benefit	Additional benefit to heirs
1	2	3	18,000	108,000	108,000	113,400	108,000	6,375,000	6,261,600
5	2	3	18,000	108,000	108,000	596,768	108,000	6,375,000	5,778,232
10	2	3	18,000	108,000	108,000	1,358,412	108,000	6,375,000	5,016,588
15	2	3	18,000	108,000	108,000	2,330,485	108,000	6,375,000	4,044,515
20	2	3	18,000	108,000	108,000	3,571,123	108,000	6,375,000	2,803,877

This assumes purchase of $6,375,000 life insurance policy for $108,000 annual premiums. For Preferred Non-Tobacco, male age 68 and Preferred, Non-Tobacco, Female age 68, the death benefit is guaranteed until the youngest insured's age 100. Not valid without accompanying insurance illustration. Please see illustration for important information.

Comments and considerations

- Consider using your annual gift exclusions to gift business interests. As the annual gifts accumulate over time, a substantial portion of your business can be transferred from your taxable estate to your successors, without incurring gift taxes.
- Alternatively, consider using your annual gift exclusions to pay life insurance premiums for a policy owned by an ILIT. These income tax-free death benefits can be used towards estate debt reduction and/or other needs.

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 make sure to let us know which issues are priorities so we can focus our attention and your resources there first.

Buy-sell and succession strategies

	Priority	Target date
Informal business valuation		
• Understand your business value and how this relates to your business succession plans.		
• Explore whether a complimentary informal business valuation from Principal is appropriate for you.		
Buy-sell planning		
• Consider establishing a buy-sell agreement with your successor.		
• Based on the information provided, discuss with your legal advisor(s) whether a buy-sell agreement will help facilitate the succession of your business.		
Buy-sell funding		
• Consider fully funding the buy-sell agreement with life and disability buy-out insurance.		
• Consult with your advisors about what type of insurance will best meet your needs.		
Entity discounting		
• You would like to transition the business using entity discounting.		
• Please consult with your tax and legal advisors about appraising the value of any gifts and determining the appropriate discounts (if any).		

Succession funding

	Priority	Target date
Key person protection		
• Identify the employees who are key to your business.		
• Consider obtaining key person life insurance and key person disability income insurance on your key employees.		
Key person retention		
• Discuss with your tax and legal advisor(s) whether a key person retention plan can be beneficial to your business.		

Your customized planning considerations
(continued)

Retirement income

	Priority	Target date
Business owner retirement analysis		
• Based on the information provided, you may not have enough savings and income-producing assets to support your retirement income goals.		
• Consider qualified retirement plan options.		
• Consider key employee benefit options.		
• Consider additional savings and strategies for supplementing your income.		
Financing options		
• Consider whether investments, annuities, and/or a life insurance policy is best suited for supplementing your retirement income.		
Chronic illness protection		
• You indicated that you are concerned about a chronic Illness. Consider purchasing a life insurance policy that provides protection for a chronic illness.		

Your customized planning considerations
(continued)

Legacy and estate planning

Legacy and estate planning	Priority	date
Wills and trusts		
• Consult with your tax and legal advisor(s) about reviewing/updating your estate plans.		
Inheritance equalization		
• You indicated that being "fair" is more important than being "equal".		
• Consider purchasing a life insurance policy to help create fair inheritances among your heirs.		
Estate tax protection		
• Continue to monitor your estate over time. As your estate grows, so will your potential estate tax liability.		
• Consider techniques to minimize potential estate and inheritance taxes.		
• Consider a permanent life insurance policy in an ILIT to help pay any federal estate taxes your estate may incur.		
Gifting techniques		
• Consider using your annual gift exclusions to gift business interests.		
• Alternatively, consider using your annual gift exclusions to pay life insurance premiums for a policy owned by an ILIT. These income tax free death benefits can be used towards estate taxes, inheritance equalization, debt reduction, and/or other needs.		

Your goals, our purpose

No matter what's important to you, Principal is here to help you identify and implement solutions that are right for your needs.

We help family business owners protect and achieve their financial dreams through financial solutions that can help them live their best lives.

We work with people like you every day and make it a priority to understand where you want to be and help you plan to get there. This means you'll get expertise and innovative ideas when you need them to make your financial progress possible. Our life insurance solutions have been protecting people for more than a century.

We're focused on delivering comprehensive and innovative solutions that help business owners take care of their employees, their businesses, and their personal needs. Our comprehensive product portfolio, paired with unique and flexible plan designs, mean you get solutions tailored to your specific needs.

Work with a leader

- No. 1 provider of nonqualified deferred compensation plans.[1]
- No. 1 small-case business life insurance provider.[2]
- No. 2 provider of non-cancelable individual disability income insurance.[3]
- No. 3 provider of group benefit insurance (dental, life and disability).[4]

[1] Based on number of Section 409A plans, PLANSPONSOR Recordkeeping Survey, July 2022.

[2] July 2021 COLI/CSIO survey of participating life insurance carriers, IBIS Associates, Hamilton, VA.

[3] LIMRA, February 2021.

[4] Based on 2019 LIMRA data on fully insured employer contracts in force, May 2021.

Appendix - Retirement income sources

Client age	Annual need	Soc Sec & pension	Rental income	Business income	Sale of the business	Qualified plans & IRAs	Invest-ment income	comp and	Gap
69	$287,171	$38,079	$0	$0	$187,200	$0	$61,892	$0	$0
70	$292,915	$38,841	$0	$0	$199,469	$0	$54,605	$0	$0
71	$298,773	$39,617	$0	$0	$200,958	$0	$58,198	$0	$0
72	$304,749	$40,410	$0	$0	$202,520	$0	$61,819	$0	$0
73	$310,844	$41,218	$0	$0	$204,161	$16,781	$48,684	$0	$0
74	$317,060	$42,042	$0	$0	$205,884	$18,311	$50,823	$0	$0
75	$323,402	$42,883	$0	$0	$207,693	$19,213	$53,612	$0	$0
76	$329,870	$43,741	$0	$0	$209,593	$20,129	$56,407	$0	$0
77	$336,467	$44,616	$0	$0	$211,587	$20,993	$59,272	$0	$0
78	$343,196	$45,508	$0	$0	$213,681	$21,983	$62,024	$0	$0
79	$350,060	$46,418	$0	$0	$215,880	$23,022	$64,739	$0	$0
80	$357,062	$47,346	$0	$0	$0	$24,108	$285,607	$0	$0
81	$364,203	$48,293	$0	$0	$0	$25,111	$290,798	$0	$0
82	$371,487	$49,259	$0	$0	$0	$26,281	$295,947	$0	$0
83	$378,917	$50,244	$0	$0	$0	$97,996	$230,677	$0	$0
84	$386,495	$51,249	$0	$0	$0	$104,569	$230,677	$0	$0
85	$394,225	$52,274	$0	$0	$0	$111,274	$230,677	$0	$0
86	$402,109	$53,320	$0	$0	$0	$118,113	$230,677	$0	$0
87	$410,151	$54,386	$0	$0	$0	$119,957	$230,677	$0	$5,131
88	$418,355	$55,474	$0	$0	$0	$8,034	$230,677	$0	$124,170
89	$426,722	$56,583	$0	$0	$0	$0	$230,677	$0	$139,462
90	$435,256	$0	$0	$0	$0	$0	$230,677	$0	$204,579

This chart is for illustrative purposes only and is made available as a self-help resource for your planning convenience. Retirement income sources are calculated on an after-tax basis. The results are based on your inputs and are not intended to be a financial plan or investment advice from Principal but may be used as a general guideline to help you make personal planning and financial decisions. Responsibility for these decisions is assumed by you, not Principal. All projections, analysis and calculation results are estimates and depend on many factors, including the data and assumptions you provide, and may not reflect all your sources of income or expenditures. Actual results may vary and do not represent the returns of any particular investment.

principal.com

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.

Disability income insurance has certain limitations and exclusions. For costs and complete details of coverage, contact your Principal Life financial representative. Individual disability income insurance Series 700. Not all products available in all states.

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

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