# Business Planning

# SALES KIT


*In this kit:*

Producer guides | Ideal client profiles | Conversation starters | Proposal samples

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# Marketing to Business Owners

## Interview Guide

Transamerica®

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# Business-Owner Interview Guide

Business-owner clients have specific financial goals, but what’s the best way to get the information you need to offer them strategies to meet these goals? This Interview Guide is an easy and efficient way to gather and analyze crucial information that will help you uncover those goals. Once you have this information, you can offer the appropriate life insurance strategies that may ensure the financial health of the business.

Opening: Tell the client that you would like to get to know more about his or her business to determine how you can best support the unique financial challenges and considerations that come with running a business. The more you learn about the goals and personal feelings regarding his or her business, the more customized strategies you can offer.

## Opening & Background

### Start by learning about the general business background:

| Business Owner(s) | Age | Ownership Percentage | Income | Family Relation |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| | | | | |

Business Name ____________________

Business Function/Services ____________________

Number of employees (full time/part time): __________ Number of years in operation: __________

Annual gross sales: $ ____________________

Business Type:

☐ Sole Proprietor ☐ General Partnership ☐ Limited Partnership

☐ C Corporation ☐ S Corporation ☐ LLC ☐ Professional Corporation

Throughout the interview, you will learn about the client's business. You may also uncover some financial challenges. You can help clients and their professional advisors determine the appropriate strategies.

## Business-Related Questions:

1. Tell me about your business.

2. Is your business family-owned?

3. Who will run the business when you die or retire? Family, partner, employees, or a third party?

4. Do you want to make sure your co-owner or a family member has enough cash to carry out a succession plan?

5. Do you plan to transfer ownership of your business during your lifetime?

6. Does your business strongly depend on one or two "key" people? If so, what would happen to your business if that person(s) were gone? Are you insured against that loss?

## Family-Related Questions:

1. Are you married? Have there been any previous marriages?

2. What would happen to your family if your business failed after you died?

## Retirement-Related Questions:

1. When do you plan to retire?
2. Do you currently have a retirement plan set up?
3. Would you like to supplement your current retirement savings?
4. Would you like to make tax-deductible contributions to a plan with guaranteed retirement benefits?
5. Are you looking for a retirement plan that will work with your cash flow?
6. Do you need to take distributions from your retirement plan at this point?

## Family-Related Question:

1. Will you need the money in your retirement savings or would you like to pass it on to your loved ones?

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# Premium financing for business clients

## Strategies to match every company's needs

For businesses with substantial life insurance needs, premium financing can greatly reduce out-of-pocket expenses and preserve capital for other investments. Today's low interest rate environment makes now a great time to start a conversation with your business clients who are looking for life insurance protection from the loss of key employees, to fund a succession plan, or as a reward for key executives. Think of clients whose companies are growth-targeted, understand leverage and have a consistent stream of revenue.

**Let's take a look at a few examples of businesses that may be ideal candidates for premium financing.**

"How can I make sure my business continues if I lose my top performer?"

## In need of key person coverage

### Meet BuildItUp, LLC

Scott owns a construction company that has been in business for over 27 years. His project manager — Jim, age 49 — is a key employee who is responsible for a recent expansion into a new metropolitan market. Scott wants to ensure that the company can survive if Jim were to die. He knows the cost and time it could take to find a replacement while keeping his clients feeling assured that projects will continue. His company has solid earnings, but its capital is tied up in equipment and materials. Premium financing could help Scott provide the life insurance policy he needs to protect from the risk of losing Jim.

"We want to successfully transition our business to the next generation."

## Seeking a succession plan

### Meet LMD Physical Therapy

Linda, Matt and Deb own a physical therapy office that has been in business for 20 years and employs 25 people. They've successfully managed two major expansions together and look forward to more. Because of these expansions — which include the building leases, staff and medical equipment — they don't have much liquidity to access and want to preserve high-performing assets. The partners have discussed that if one of them were to die, they plan on transitioning ownership to the two remaining partners. Premium financing life insurance policies may help ensure that the business can purchase the deceased owner's interest if one of them were to die and distribute the shares to the remaining partners.

"How can I make sure my top performers stay with the company?"

## Want an executive benefit plan

### Meet TechRite Instruments, Inc.

This 10-year-old technology company has experienced consistent growth, with solid finances and steady revenue. It has 75 employees and five key performers: Steve, age 52, Sales Manager; Will, age 40, Top Sales Rep.; Kathy, age 46, Director of Innovation; Josef, age 50, VP of Operations; and Maritza, age 35, Chief Marketing Officer. Though the company is extremely successful, its capital is tied up in R&D and manufacturing equipment. TechRite could help retain their key performers — and attract potential executives — by premium financing an executive benefit solution that provides additional rewards to these key performers.

**Think about your book of business. If you have business clients who could benefit from premium financing an accumulation-focused life insurance policy, consider *Lincoln WealthAccumulate*® 2 IUL.**

## Why *Lincoln WealthAccumulate*® 2 IUL?

- Significant growth opportunity through six indexed accounts you can adjust as your needs, or the markets, change.
- Downside protection to help shield your investment from market losses.*
- Riders that provide enhanced surrender value allowing business owners to reposition current company assets to purchase life insurance while minimizing impact to the balance sheet or collateral value to qualify for more premium financing.

## Why Lincoln?

- Lincoln allows international clients to finance their premiums. We have dedicated consultants and specific written guidelines for you and your clients to follow.
- Lincoln allows for MultiLife cases of five or more lives to be financed.

**Keep in mind:**

- Premium financing loan interest rates may increase, resulting in higher loan interest payments.
- Policy crediting rates can fluctuate and may perform better or worse than anticipated, resulting in the potential for additional collateral.
- The business may need to pay additional premiums to maintain the policy.

*Policy charges remain in effect and could reduce your policy value.

**Have questions about premium financing or need help designing a case? Contact us at PremiumFinance@LFG.com.**

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# Conversation starters

## How to approach your small business owner clients

Owners need solutions to help them attract, reward, and recruit top talent; protect their business investment; and establish a succession plan. Open a discussion with an owner by asking questions about these essential business needs and how they relate to their business.

## What should business owners be concerned about?

| Retaining, rewarding, recruiting | Key person protection | Efficiently transitioning their business |
|---|---|---|
| • A plan to attract and retain top talent<br>• Rewards for exceptional performance<br>• Supplemental retirement plans for owners and selected employees<br>• Cost-efficient employee incentives | • Protection from the financial impact of your death and/or the death of an essential employee | • Protection in the event of the death of a partner or co-shareholder<br>• A plan for the orderly transition of ownership and management of your business<br>• A strategy to obtain a fair price for your business when you want to sell it |

## Start the conversation questions to ask

| | 1 Open up the discussion with these questions | 2 Show how the issue could impact the business | 3 Respond by telling the owner you can help them plan | 4 Review these planning solutions with the owner |
|---|---|---|---|---|
| **Retain, reward, recruit** | Are you concerned about losing key employees to competitors?<br>Are you looking for key talent and not able to hire qualified applicants? | • Losing key executives costs money and could hurt employee morale and customer relations.<br>• Competitors may be better positioned to retain, reward, and recruit from the same talent pool. | • **Key person coverage** - See page 3 in the Lincoln Business Life Insurance Solutions Guide (order code: LIF-BI-BRC001) | See the Lincoln Business Life Insurance Solutions Guide (order code: LIF-BI-BRC001) for<br>• An **Executive Bonus strategy** - See page 4<br>• A **Supplemental Executive Retirement Plan (SERP)** - see page 5<br>• A **Loan Regime Split Dollar plan** - See page 6 |
| **Protect** | How many employees contribute significantly to your profits?<br>What is your estimate of the costs of hiring and training a replacement for you, a co-owner, or a key employee? | • The death or disability of a key employee could lead to business disruption, loss of profits, and the financial burden of recruiting and training a suitable replacement. | • To create a source of income to replace lost capital due to a key employee's death<br>• To provide funds for recruitment and training efforts to replace their key employee<br>• To have access to cash to help settle any loans due, or other expenses or bills incurred as the company transitions | See the Lincoln Business Life Insurance Solutions Guide (order code: LIF-BI-BRC001) for<br>• **Key person coverage** - See page 3 |
| **Transition** | What are your plans for retirement?<br>What would happen to your company, your employees, or your customers if you or a co-owner should die?<br>Who would take the reins? | • Without proper planning, you may not have funding needed when you eventually decide to retire or sell your business interest.<br>• If something would happen to an owner, imagine their spouse or heir inheriting their share of the business. This person may not be an ideal co-owner. | • To provide funds to help transfer their business interest<br>• To ensure that a shareholder's portion of the business does not transfer to an unsuitable owner<br>• To facilitate continuity for clients, employees and creditors | See the Lincoln Business Life Insurance Solutions Guide (Order code: LIF-BI-BRC001)<br>• A **Buy-Sell Agreement** - See page 7 |

## Ask your representative how Lincoln business solutions can help you and your clients.

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# Business fact finder

This fact-finding form is designed to assist you in uncovering your needs as a business owner. Once you've completed this assessment, please review it with your advisor, who can assist you in determining a strategy to help you reach your goals.

## Business information

Business name________________________________ Primary contact______________________________________

Industry______________________________________________________________________________________

Phone ________________________________________ Email ______________________________________________

Address_______________________________________ City________________________ State________ ZIP_________

Number of years in business____________________ Website ____________________________________________

Total number of employees__________ Part-time employees__________ Number of key employees__________

## Business organization

- ☐ Sole proprietorship
- ☐ General partnership
- ☐ Limited liability company
- ☐ Subchapter C-corporation, subject to corporate income tax at a marginal tax rate of______ %
- ☐ Subchapter S-corporation
- ☐ Professional service association or corporation
- ☐ Nonprofit

**Any changes in form of business?** ☐ Yes ☐ No
(For example: sole proprietor to corporation, partnership to corporation, S-corp to C-corp.)
If yes, please explain: ______________________________________________________________________________

☐ End of current fiscal year ___/___/___ ☐ Cash ☐ Accrual basis

## Professional advisors

**Accountant** Name ______________________________________________________________________________

Address____________________________________________________________________________

Phone _________________________________ Email ___________________________________________

**Attorney** Name ______________________________________________________________________________

Address____________________________________________________________________________

Phone _________________________________ Email ___________________________________________

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## Owners/Key employees

| Names | Age/DOB | Ownership% | Personal tax bracket | Total annual compensation | % of debt attributable | % of profits attributable |
|---|---|---|---|---|---|---|
| ______ | ______ | ______ | ____% | $______ | ____% | ____% |
| ______ | ______ | ______ | ____% | $______ | ____% | ____% |
| ______ | ______ | ______ | ____% | $______ | ____% | ____% |
| ______ | ______ | ______ | ____% | $______ | ____% | ____% |
| ______ | ______ | ______ | ____% | $______ | ____% | ____% |

Are any of the owners related? ☐ Yes ☐ No

If yes, name(s) and relationship(s) ______________________________

**As a business owner, I'm concerned about:**

| Business protection | Yes | No |
|---|---|---|
| Leaving business debts that my family has to pay | ☐ | ☐ |
| Revenue loss in the event a key person unexpectedly passes away | ☐ | ☐ |
| Having capital to recruit and train a replacement | ☐ | ☐ |
| Significant impact on customer relations should a key person or owner unexpectedly pass away | ☐ | ☐ |
| Employees' perception of the financial stability of the company should a key person unexpectedly pass away | ☐ | ☐ |
| **Recruiting, rewarding and retaining top talent** | **Yes** | **No** |
| Attracting new talent | ☐ | ☐ |
| Providing benefits with tax-deductible dollars | ☐ | ☐ |
| Losing key talent to competitors | ☐ | ☐ |
| Providing attractive retirement benefits for key employees to encourage them to remain with the business until retirement | ☐ | ☐ |
| Utilizing strategies that have minimal impact on my balance sheet | ☐ | ☐ |
| **Planning for business succession** | **Yes** | **No** |
| Being able to efficiently transfer my business interest | ☐ | ☐ |
| Protecting my family's income in the event of my death | ☐ | ☐ |
| Receiving a fair price for my business interest | ☐ | ☐ |
| Assuring business continuity | ☐ | ☐ |
| Equitable distribution of assets to my children who aren't involved in the business | ☐ | ☐ |

## Protecting against the loss of an owner or key employee

**Why it's important**

Businesses can experience a significant financial impact from the loss of an owner, partner, top executive or an essential employee with unique talents, experience or skills crucial to the prosperity of the business. It's important to be prepared to cover lost profits, fund recruitment and training efforts, and provide cash to pay debt or other expenses.

Outstanding long-term business debt $ ____________ Debt currently insured $ ____________

Average net income (profit/loss) of the business for a minimum of the last two years $ ____________

## Common key person valuation methods

### Multiple of salary valuation method

This approach assumes the value provided by the key person is associated with their total compensation. In addition to their annual salary, this amount may include annual bonuses and other compensation, such as stock options and profit sharing. The multiplier used is typically between 5 and 10 times their compensation. Adjustments are generally based on the key person's age and role in the business. Debt coverage is also included where applicable for business owners and key persons responsible for debt obligations.

### Percentage of profits valuation method

This approach assumes that a key person's contribution to business profit would be lost during any period they are not working. The profits attributable are determined by multiplying the average profits by the percentage of those profits attributable to the key employee. These values are based on user input. This approach also includes the costs associated with replacing their skills and experience. These costs may include finder fees, relocation, sign-on bonuses, and training costs. Debt coverage is also included where applicable for business owners and key persons responsible for debt obligations.

# Retaining, rewarding and recruiting top talent

### Why it's important

In a tightening job market, it's more difficult for businesses to attract and retain the top talent businesses rely on for success. A combination of compensation and benefits, including qualified and nonqualified plans, can address this need.

## Benefits information

| | Offered now? | Details |
|---|---|---|
| Group insurance (life, health, dental, disability) | ☐ Yes ☐ No | |
| Qualified pension/profit sharing/IRA/SEP | ☐ Yes ☐ No | |
| Deferred compensation | ☐ Yes ☐ No | |
| Split-dollar plan | ☐ Yes ☐ No | |
| Executive bonus | ☐ Yes ☐ No | |
| Supplemental disability income insurance | ☐ Yes ☐ No | |
| Long-term care insurance | ☐ Yes ☐ No | |

Describe any existing corporate-owned life insurance (COLI) and the reason for coverage.

______________________________________________

## How important is each of the following considerations?

| | Not important | Important | Very important |
|---|---|---|---|
| Create a fringe benefit for the owner(s) | ☐ | ☐ | ☐ |
| Provide executives with incentives to stay with the business (golden handcuffs) | ☐ | ☐ | ☐ |
| Allow executives to defer compensation | ☐ | ☐ | ☐ |
| Create an asset owned and controlled by the business | ☐ | ☐ | ☐ |
| Recover the cost of providing the benefit | ☐ | ☐ | ☐ |
| Provide life insurance coverage until retirement | ☐ | ☐ | ☐ |
| Provide life insurance coverage beyond retirement | ☐ | ☐ | ☐ |

**Which of these factors is more important?**

☐ Employee deferral of taxes *or* ☐ Current deductions for benefits paid by the employer

# Planning for business succession

**Why it's important**

Often overlooked, succession planning is one of the most critical aspects of business planning especially for family-owned businesses. It can help ensure an orderly transition upon the death, disability, retirement or withdrawal of any of the business owners, partners or shareholders.

## What will happen to the business upon the owner's:

Disability? ______________________________

Retirement? ______________________________

Death? ______________________________

**Is there a business appraisal?** ☐ Yes ☐ No

**Is there a buy-sell agreement?** ☐ Yes ☐ No

If yes, what type? ☐ Unilateral one-way purchase ☐ Cross-purchase ☐ Entity redemption ☐ Wait-and-see option

How is the buy-sell plan funded? ______________________________

When was it executed? ___/___/____

When was it last reviewed by owners and/or advisors? ___/___/____

## Business valuation

Book value information:

Assets $____________________ Asset adjustments: $____________________

Liabilities $____________________ Liability adjustments $____________________

Income information:

Calendar year: ________ ________ ________ ________ ________

Taxable income: ________ ________ ________ ________ ________

Interest expense: ________ ________ ________ ________ ________

Depreciation: ________ ________ ________ ________ ________

Amortization: ________ ________ ________ ________ ________

Valuation method information: (Typical long-term growth ranges from 2.5% to 3.0%)

Earnings are: ☐ Stable ☐ Variable ☐ Volatile

Rate of return on assets: ________

Projected growth rate of earnings: ________ (Year-over-year growth on earnings)

Number of years to apply growth rate on earnings: ________ (10 years is typical for a mature business)

Long-term growth rate: ________ (Typical long-term growth ranges from 2.5% to 3.0%)

Number of years to include goodwill: ________

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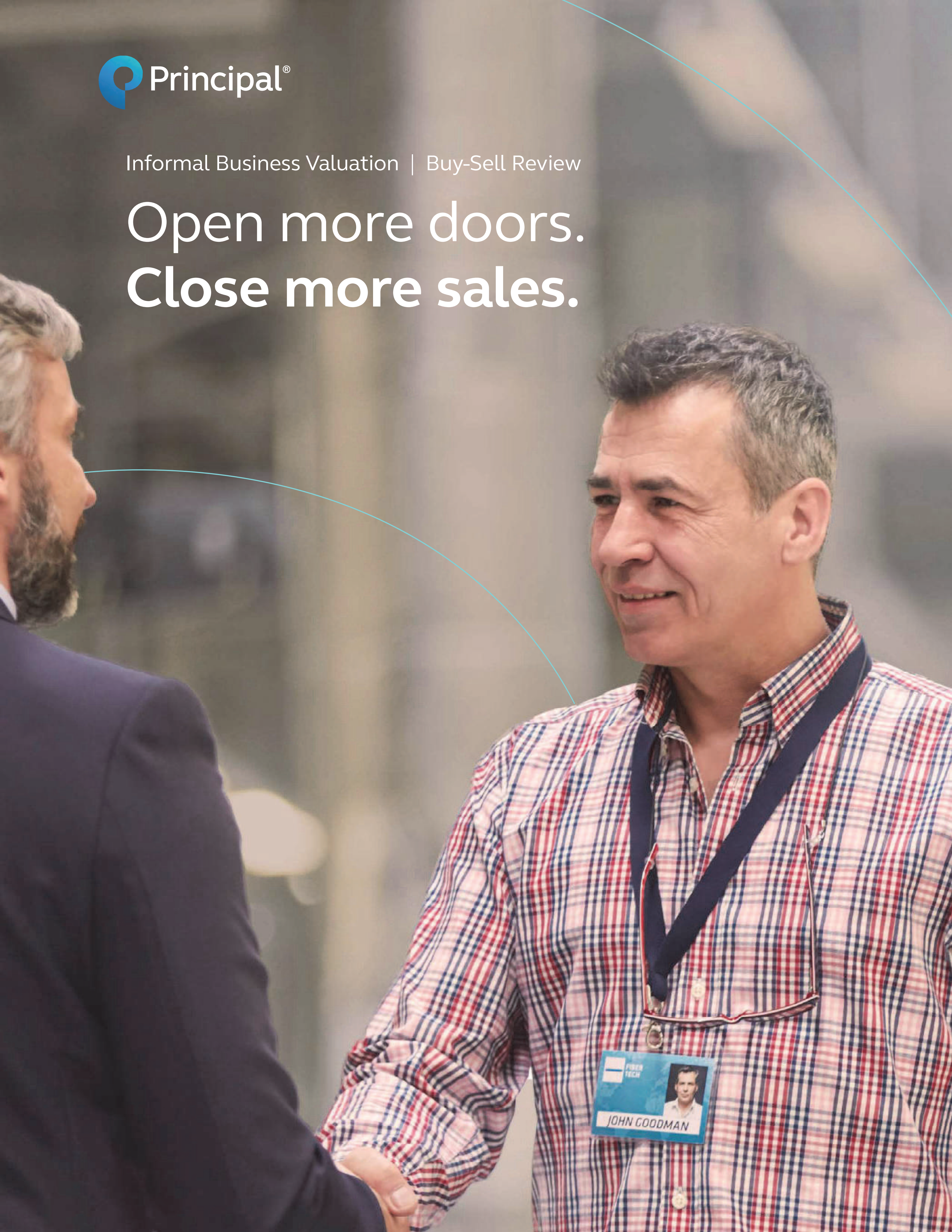
Informal Business Valuation | Buy-Sell Review

# Open more doors.
# **Close more sales.**



# Generate sales opportunities with Informal Business Valuations and Buy-Sell Reviews

The reports provided through our Informal Business Valuation and Buy-Sell Review services offer important information to business owners about the impact the value of their business and/or the state of their buy-sell agreements can have on many aspects of their financial future. And that, in turn, can lead to additional life and disability insurance as well as accumulation sales for you.

## Informal Business Valuation.

**After completing the fact finder, you and your client will receive a complimentary informal business valuation prepared by our Business and Advanced Solutions team of professionals including CPAs, attorneys, and consultants.** The report also provides suggested solutions based on the unique needs of the business. In addition, you and your clients will get direct access to this team to discuss recommendations or any questions you may have.

**What's the purpose of this service? Our informal business valuation service is not intended to provide the fair market value for purposes of selling a business.** Long before a sale occurs, it's important for business owners to know the value of their business for risk protection purposes. This means understanding and protecting the value at risk—for both planned and potentially unplanned events.

**Snapshot:** real opportunity

Owners of growing businesses represent a favorable market with significant risk-protection needs. There are more than 32.5 million small businesses.[1]

## Buy-Sell Review.

**During the fact finding discussion with your client, you'll also want to ask if they have a buy-sell agreement.** If they do, ask for a copy to be reviewed. We'll then provide an additional report that includes any recommendations our Business and Advanced Solutions team may have based on any needs uncovered. The review may also include a summary of your client's buy-sell agreement funding and options to help meet any identified funding deficiencies.

**What's the purpose of this service? The complimentary Buy-Sell Review is designed to provide a timely review of key provisions in the buy-sell document(s) in order to provide best practices feedback and ensure everything is current and in line with the business owner's expectations.** It isn't intended to replace a business owner's valued legal counsel, but instead to provide suggestions that will help facilitate a discussion with their legal counsel.

Providing these value-added services to your qualified[2] business owner clients and prospects can help open a variety of sales opportunities for you!

[1] U.S. Small Business Administration Office of Advocacy, U.S. Small Business Profile, October 2021.

[2] Clients and prospects must meet the qualifications outlined under "Who is a good prospect?" for each service.

# What sales opportunities can be uncovered?

**Business succession planning and business transfer strategies**

- Match up existing agreement, valuation, and funding.
  - Identify unmet financial needs for lifetime, death, and disability triggers.
  - Align life insurance and disability insurance definitions and ownership.
- Establish and fund new buy-sell plans.
- Unique solutions for single-owner businesses, who often don't think they need buy-sell agreements. It's just as important for them to have a strategy in place, so solutions we offer include Principal Select Buy-Out Plan℠, One Way Buy-Sell, and No Sell Buy-Sell.

**Business protection**

- Key Person (life and disability insurance)
- Loan protection (life and disability insurance)
- Business overhead expense (disability insurance)

**Key employee retention and retirement**

- Bonus plans for key employees
- Bonus plans for owners (LLCs and S corporations)
- Deferred compensation plans
- Split dollar plans

**Legacy & estate planning**

- Inheritance equalization
- Family business transfers
- Estate tax exposure calculator

**Insurance protection**

- Individual life insurance for business owners, their key employees, and families
- Individual disability insurance

# Who is a good prospect?

## For a Buy-Sell Review:

- Any company with a buy-sell agreement with at least two years since the agreement was drafted or reviewed.
- Any company with an operating agreement or partnership agreement that includes buy-sell provisions
  - Operating and partnership agreements are generally less comprehensive with regard to buy-sell provisions, such as addressing valuation formulas and insurance provisions.
  - Operating and partnership agreements create great opportunities for you to provide value to clients by helping them implement a buy-sell agreement.

## For an Informal Business Valuation:

Profitable, growing businesses with gross revenues of $500,000 and above. Industries that are a particularly good fit include:

- Manufacturing companies
- Construction companies
- Professional service-related companies (architects, healthcare systems, law firms, dental, engineering, accounting firms, etc.)

# Which prospects present challenges?

## For a Buy-Sell Review:

We can generally provide value to all business clients requesting a review as long as they have an agreement that includes buy-sell provisions.

## For an Informal Business Valuation:

**Farms/ranches.** Value is generally equal to the value of the livestock, equipment, land, etc., as calculated by the various market indexes. Valuations of farm-related commodities and land require specialized knowledge and data.

**Nonprofit organizations.** These are generally not intended to be sold for a profit.

**Publicly traded companies.** Generally, the fair market value will equal the stock price. No value is added by providing our informal valuation.

**Non-profitable businesses.** These are businesses with negative book value and net losses.

**Real estate holding companies.** The value of this type of business is generally equal to the appraised values of the respective properties being held.

**Businesses with commission as the primary revenue.** Valuing these firms is challenging because compensation can vary widely among all parties.

**Companies engaging in criminal activity.** This includes businesses, such as marijuana dispensaries, where a conflict exists between state and federal law as to the legality of the business.

**Rental properties such as bed and breakfasts and hotels.** The value of this type of business is generally equal to the appraised values of the property(ies).

**Small real estate agencies.** These are generally agencies with one to three agents and few staff members.

**New companies.** It's difficult to trend data with new companies, as there is generally more expense in early years. The investment in the companies is a good place to start. In addition, new companies need to protect their key people and cover any outstanding business debt.

Take advantage of our Informal Business Valuation and Buy-Sell Review services, and start the conversation with business owners today!

Let's connect

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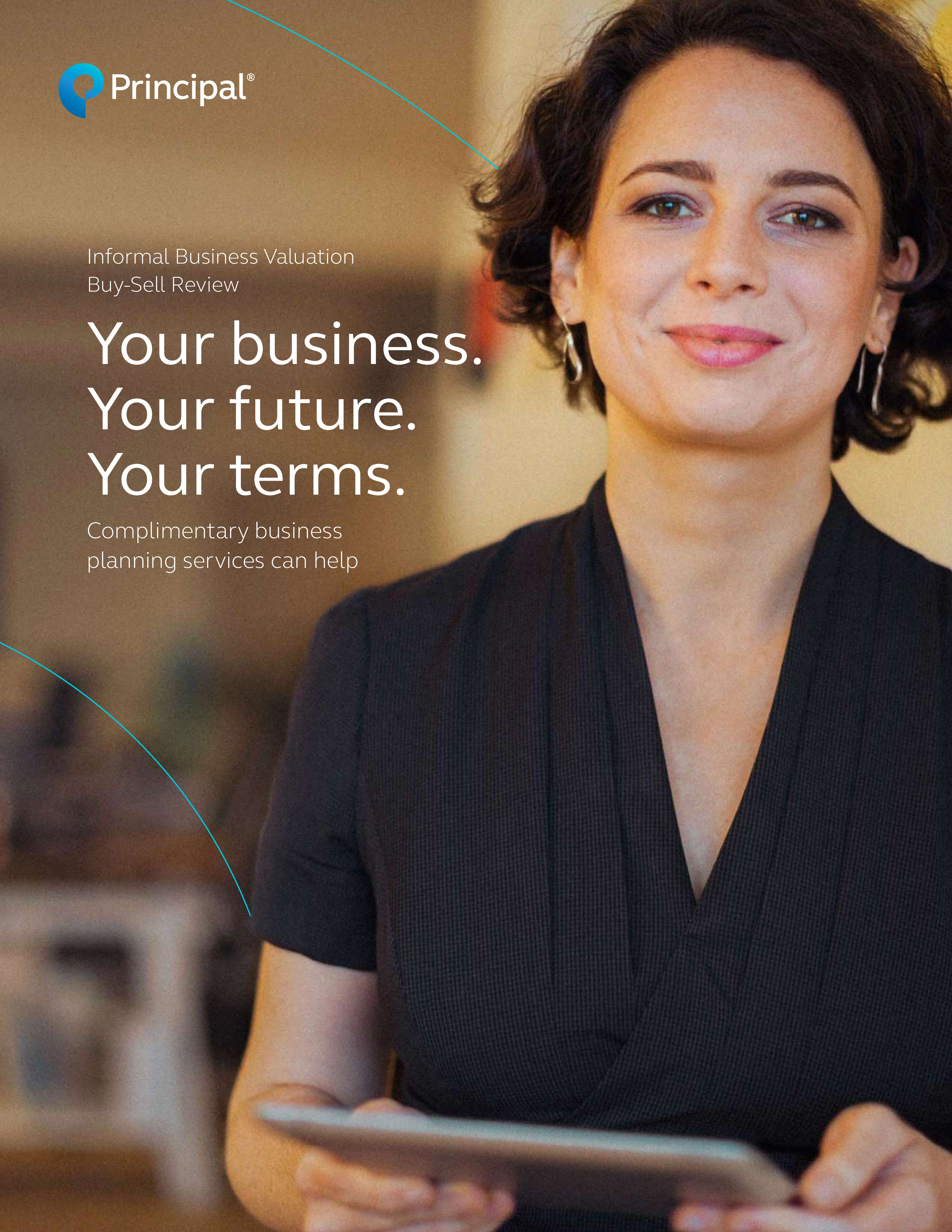
Informal Business Valuation
Buy-Sell Review

# Your business. Your future. Your terms.

Complimentary business planning services can help



# Are you ready for a smooth transition down the road?

While most business owners believe planning for the transition of their business at death is key, a transition during their lifetime is much more likely. That's why it's also important to plan how your business transition might impact your retirement.

### Make sure your buy-sell agreement does what you want

A properly funded, well-drafted agreement:

- Identifies a buyer and a fair price.
- Lists who will take control.
- Protects employees, customers, suppliers, and creditors during your transition.

Best practice suggests buy-sell agreements should include at least these top triggers as mandatory rather than optional: **death, disability** and **retirement**.

### Know what your business is worth

An unexpected triggering event could leave you or your successors and heirs frustrated if the buy-sell agreement kicks in, and your stated company value is either more or less than its current or actual value.

### Tie it all together for a smooth transition

A buy-sell agreement that reflects your current financial results means everyone can be happy:

- Retiring or exiting owners/heirs get a fair value for their share of the business.
- Remaining owners don't over-pay or under-pay the exiting owners/heirs.
- Sellers are more likely to receive fair market value.
- You may avoid costly delays and arguments among owners.

# Our complimentary services offer a great starting point

We want you to rest easy and take comfort knowing that your buy-sell agreement is designed and ready to execute the way you want. That's why we offer:

An **informal business valuation** using five commonly used valuation methods. This valuation also satisfies the financial requirements during any life insurance underwriting process with us.

A **review of your existing buy-sell agreement** if you have one.

The reports you'll get from these services provide a summary of any issues and recommendations. And they'll serve as a starting point for a discussion with your tax and legal advisors. These services are not intended to provide a certified appraisal or market value for the purpose of completing the sale of your business. Nor are they intended to replace the services of your legal counsel. Rather, they're intended to provide you with a meaningful value and best practices feedback to help ensure your business is protected for both planned and unplanned events.

# Ready to begin?

## STEP 1 | Gather your information

Provide your financial professional with the documents and information needed for the informal business valuation and/or buy-sell agreement review:

**Agreements.** If applicable, provide a copy of any current buy-sell agreement and any amendments. Include any documents you think control the transfer of your business.

**Your entity type.** Identify your tax and legal entity type (partnership, LLC, S corporation, etc.).

**Number of owners.** Provide a list of all individuals and entities with ownership interest (including stock options and warrants), and the ownership percentages.

**Financials.** Provide copies of your financial statements (balance sheets and income statements **or** federal business tax returns) from the most recent three full years.

**Insurance.** Provide a complete list of all life and/or disability insurance policies associated with the buy-sell agreement.

- The list should identify the insured, owner, beneficiary, carrier, benefit amount, contract type (term, universal life, variable universal life), cash value if applicable, duration (if a term policy), and amount of any outstanding loans.
- Include copies of any split dollar or deferred compensation agreements associated with the policies.

## STEP 2 | Get your customized reports

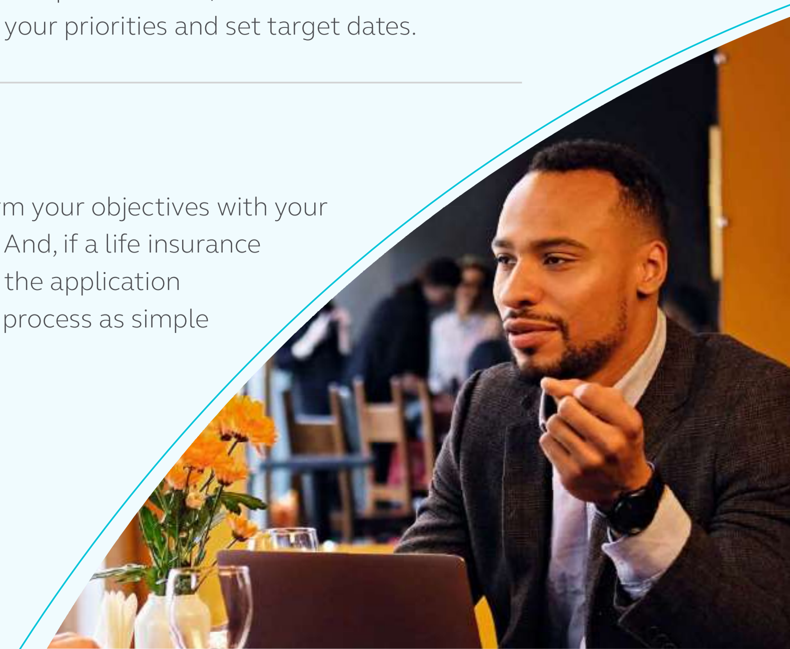
- **Informal Business Valuation and Business Planning Report.** We provide a complimentary informal valuation of your business that includes action items and suggested solutions to help meet your retirement, business succession, business and key person protection, as well as legacy and estate planning goals.
- **Buy-Sell Agreement Review.** This report includes highlights of your existing buy-sell agreement and our recommendations for your business based on industry best practices. Adequate funding of your buy-sell agreement is at the heart of its success.

## STEP 3 | Meet with your financial professional

Discuss your unique planning considerations with your financial professional (this can include a conference call with the consultant who prepared your reports). Then, rank your priorities and set target dates.

## STEP 4 | Discuss next steps

Once you and your financial professional have a plan, confirm your objectives with your tax and legal advisors and implement any needed changes. And, if a life insurance policy from Principal is part of the plan, you can easily start the application process. We have underwriting programs to help make this process as simple as possible.



Let’s connect | Contact your financial professional or go to **principal.com.**

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**Note:** Although a buy-sell review from Principal provides a valuable starting point, it does not provide you with a legal opinion as to the legal or tax implications of your agreement or to the appropriateness of any funding strategies. Principal cannot provide you with any legal documents or revise existing legal documents. The valuation will not be a substitute for a formal valuation, nor does it establish a value for estate tax purposes. The review is intended to help identify your objectives for the buy-sell agreement and any issues that must be addressed to help ensure your objectives are being met. The review should be examined by your legal and tax advisors.

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

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Buy-Sell Review

# Plan for the future of your business

Presented to

Sample Company

Presented by

Producer Name

Taking steps now to protect the future of your business is important. That's why having a buy-sell agreement in place is such a good idea. We appreciate the opportunity to look at your current plan and hope that this Buy-Sell Review ("Review") will be helpful to you as you continue your planning.

We received the following documents for Sample Company ("Company"):

- **Sample Agreement, dated 01/01/2010, ("Agreement")**

- **Business Planning Fact Finder**

- **Combination of Tax Returns and Financials from 2018 to 2020**

## Important information

Please note this Review is based on our review of these documents and is intended to be used as a basis for discussions with your tax and legal advisors. If these documents are invalid in any way or other pertinent documents exist that we're not aware of, the observations, recommendations and analysis contained in this Review may be inaccurate. Principal® does not provide tax or legal advice.

This Review does not provide you with a legal opinion as to the legal or tax implications of your agreement or the appropriateness of any funding strategies. Principal cannot provide you with any legal document or revise existing legal documents. If an informal valuation is provided, it is not a substitute for a formal valuation, nor does it establish a value for tax purposes. The Review is intended to help identify your objectives for the buy-sell agreement and any issues that must be addressed to help ensure your objectives are being met.

Some Agreements include language that structures the financial and working relationship among co-owners of the business, with buy-sell provisions being only a part of the entire agreement. This Buy-Sell Review is limited to only the buy-sell provisions found in the Agreement.

**Prepared by: Advanced Solutions Reviewer**
**Reviewed by: Advanced Solutions Reviewer**

J.D. is an educational degree and the holder does not provide legal services on behalf of the companies of the Principal Financial Group®. CPA does not provide tax or accounting services on behalf of the companies of the Principal Financial Group®.

# Background information

| | |
|---|---|
| **Entity type** | S corporation |
| **Entity taxation** | S corporation - accrual |
| **Type of agreement** | cross purchase |
| **Business owners** | Owner A (50%)<br>Owner B (50%) |

Comments:

- An S corporation is generally a pass-through entity for income tax purposes.
- Given the age of the Agreement, this may be a particularly good time to review all current provisions and to discuss with local counsel and the business owners whether any additional terms should be added.

# Executive summary

Our goal in providing this Review is to help you make sure that if interests in this business should need to be sold or transferred you have:

- enough funds
- in the right place
- at the right time

Highlights of your Agreement:

- **Death -** In the event of a business owner's death, the Agreement is structured as a cross purchase buy-sell arrangement. The buy-out at death is mandatory.

- **Disability** - In the event of a disability, the purchase of an owner's interest is optional. The definition of "disability" for purposes of the buy-sell does not align with the definition in a disability buy-out policy.

- **Purchase Price** - The Agreement states that the price for a business owner's interest at death will be based on a stipulated price set forth in the Agreement: $1,000,000.
  - We completed an informal business valuation of the Company based on Company financials. Using several formulas (but excluding book value), the business value ranged from $3,000,000 to $4,000,000. The Highlighted Value in the Informal Business Valuation is $4,000,000.
  - Consider the impact to the business of installment payments to buy the interest of a deceased or disabled owner. For example, the cost of purchasing a $4,000,000 business holding over 5 years is $800,000 per year (not factoring interest). Given that the buyer is generally using after-tax dollars to purchase, the cost is approximately $1,269,841 per year when factoring taxes at 37%.

- **Priority considerations:**
  The Company’s ownership roster may have experienced changes since the Agreement was created.

  An unsigned Agreement is without legally binding effect. Before signing the Agreement, ensure that the owners are satisfied it contains the needed buy-sell provisions after discussing with local counsel.

  If disability buy-out insurance coverage is acquired, consider using a definition of disability in the Agreement which is tied to the definition in the disability buy-out policy.

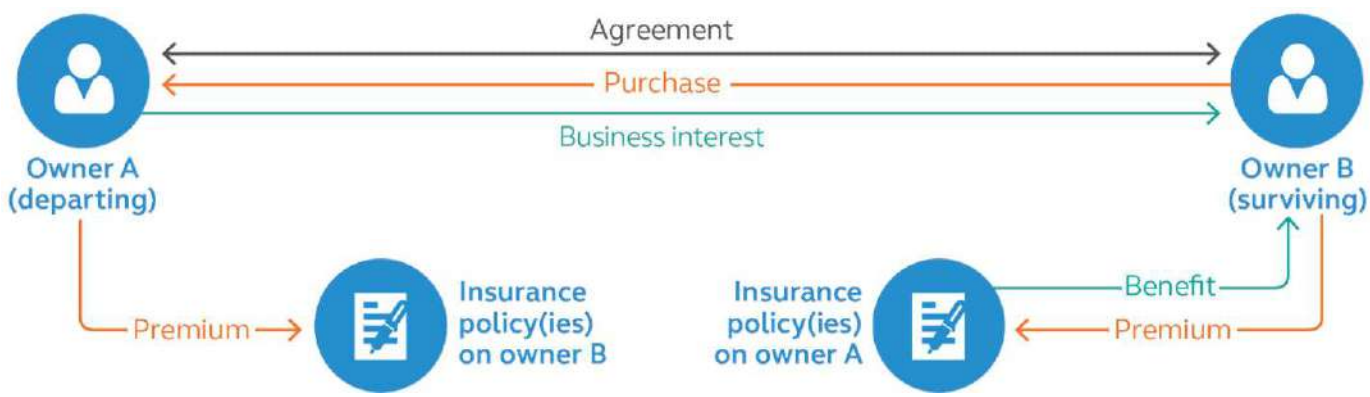
- **Action items:**
  - Review and update (if needed) any life and disability buy-out coverage related to this Agreement.
  - Discuss this report with your tax and legal advisors.

We appreciate this opportunity to help you uncover planning solutions that may improve your fiscal well-being.

## Your agreement structure:

# Cross purchase

The Agreement is drafted as a cross purchase buy-sell arrangement upon the death of a business owner. Under this cross purchase buy-sell plan design, the surviving business owners, as opposed to the business entity, are the purchasers of a deceased owner's interest.




Comments:

- A cross purchase buy-sell arrangement is often used with two or three business owners. Under such arrangement, the surviving business owners will generally use income tax free life insurance death proceeds to purchase the business interest of a deceased owner. This permits the surviving owners to receive an increase in ownership cost basis for income tax purposes. This increase in cost basis in the Company will lessen the amount of capital gain tax paid if a subsequent sale should occur.

- Under a cross purchase arrangement, life insurance policies are generally cross owned by the business owners and would be subject to the personal creditors of the business owners. However, the policies would not be subject to the creditors of the business. "Cross owned" means the policy owner is also the beneficiary, but not the insured. Unwelcome income and/or estate tax consequences may result if different policy ownership/beneficiary structure is followed.

- The number of life or disability buy-out policies owned by the business owners will incresase significantly as the number of business owners increases under a cross purchase arrangement.

# Additional information

The business owners might wish to discuss the following with local counsel:

- The Company's ownership roster may have experienced changes since the Agreement was created.

- An unsigned Agreement is without legally binding effect. Before signing the Agreement, ensure that the owners are satisfied it contains the needed buy-sell provisions after discussing with local counsel.

- If disability buy-out insurance coverage is acquired, consider using a definition of disability in the Agreement which is tied to the definition in the disability buy-out policy.

# Purchase and sale events

The following purchase and sale triggering events appear in your buy-sell agreement:

| Triggering events | Mandatory/optional | Purchasers |
|---|---|---|
| **Death** | mandatory | company mandatory |
| **Disability** | optional | company optional |
| **Retirement** | not addressed | not addressed |
| **Termination of employment (voluntary)** | not addressed | not addressed |
| **Termination of employment (involuntary)** | not addressed | not addressed |
| **Bankruptcy** | not addressed | not addressed |
| **Divorce** | not addressed | not addressed |
| **Operation of law** | not addressed | not addressed |
| **Deadlock provision** | no | |

# Purchase and sale events

Comments:

- Purchase rights or options arising from the occurrence of buy-sell event triggers are typically subject to time limits. If a potential buy-sell triggering event occurs, the parties should pay close attention to the time limit provided to exercise a purchase right or option.

- Including death as a mandatory buy-sell provision for buyer and seller is common in buy-sell agreements.

- Disability of an active owner may be disruptive to a business and is often a mandatory buy-sell triggering event. Consider including disability as a mandatory buy-sell triggering event.

- Personal bankruptcy of a business owner, or other assignment of the business interest to creditors, is often a buy-sell triggering event. Review with local counsel whether personal bankruptcy, or assignment of the business interest to creditors, should be added as buy-sell triggering event.

- The divorce of a business owner is often a buy-sell trigger if the spouse of a business owner is awarded an ownership interest in the Company pursuant to the divorce. Often the divorcing business owner is provided the initial option to purchase. The Company and other business owners may be given secondary purchase options. The parties may wish to consider adding divorce as a buy-sell triggering event.

- Termination of employment for any reason other than one of the enumerated event triggers, whether voluntary or involuntary, is often a buy-sell triggering event. Consider the advantages and disadvantages of including termination of employment as a purchase option.

- Retirement is an important mandatory triggering event often overlooked under a buy-sell agreement. Consider amending the Agreement to include retirement of a business owner as a mandatory purchase event.

- Using a disability definition based on being eligible to receive benefits under “any disability policy” may not be consistent with the definition and timing of disability buy-out insurance coverage.

# Purchase and sale events

Additional comments:

- Discuss with local counsel which buy-sell triggering events should be mandatory and which ones should be optional.

- A deadlock provision may be helpful to avoid irreconcilable differences between owners. It is most often included in buy-sell agreements where there are only two business owners. Under this provision, a business owner who receives a purchase offer from a co-owner must either sell to the co-owner, or purchase the co-owner's interest at the price and terms contained in the offer.

# S corporation considerations

Comments:

- Premiums paid by an S corporation for Company-owned policies may be considered a non-deductible item at the Company tax reporting level, as an expense not properly chargeable to a capital account.  Non-deductible expenses generally reduce the owners' cost basis in their Company ownership interest.  Annual increases in policy cash value, if present, may ineffect, be "netted" against decreases in cost basis.

- All oustanding shares of S corporation stock must confer identical rights to distribution and liquidation to shareholders pro-rata according to their stock ownership. If identical rights to distribution and liquidation proceeds are not conferred pro-rata according to stock ownership, an impermissible second class of stock will result, which would cause a loss of the S corporation election. Review with local counsel any provision in the Agreement that may create an impermissible second class of stock. Discuss this matter with local counsel.

# Purchase price

In the events of death and disability, the purchase price of a business owner's interest is a pro rata portion of the value of the Company as determined below.

| Purchase price provisions | Death | Disability |
|---|---|---|
| **Primary method of determing the purchase price** | based on a stipulated price set forth in the Agreement: $1,000,000 | based on a stipulated price set forth in the Agreement: $1,000,000 |
| **Second method of determining the purchase price (if applicable)** | determined by an appraisal | determined by an appraisal |
| **Is insurance excluded from the valuation of the business?** | not addressed | not addressed |
| **Other provisions** | | |
| **Does the Agreement provide for minority interest discounts?** | not addressed | |
| **For certain triggering events, is the purchase price subject to a "haircut"?** | no | |
| **Did Principal prepare an informal business valuation?** | yes | |

Comments:

- The purchase price for other triggering events is the same as for death.
- We completed an informal business valuation of the Company based on Company financials. Using several formulas (but excluding book value), the business value ranged from $3,000,000 to $4,000,000. The Highlighted Value in the Informal Business Valuation is $4,000,000.
- The risk of using a stated or agreed upon business value in a buy-sell agreement is that it may become out of date, particularly if it has been a number of years since the Agreement was signed. Consider whether an alternative methodology, such as a formula or appraisal approach, might be simpler, as well as fairer to both the purchasers and the sellers.

# Purchase price

Additional comments:

- The valuation provisions of buy-sell agreements are one of the most frequently litigated issues in buy-sell disputes. Courts tend to hold owners to the terms of their contract, even if the outcome is not as fair as the owners expect. Owners need to be cognizant of the standards by which the value of their interest will be determined, and whether the terms of the Agreement will permit a minority owner's share to be reduced because of lack of control and/or marketability. Owners are urged to discuss this issue with local counsel, taking care to be certain they understand the pricing provisions of their agreement. If a buy-sell agreement requires ownership valuation to be determined by an outside appraisal, best practice is to instruct the appraiser in the Agreement whether to apply minority interest or marketability discounts.

- Discuss with local counsel whether the valuation provisions should specify whether control premiums, and discounts for lack of marketability and/or lack of control/minority interest are to be taken into account.

- Key employee life and disability coverage may be helpful to the business owners in protecting the value of the business from the unexpected loss of a key employee's services. Typically, the business is the owner, premium payer, and beneficiary of key employee policies. Policy proceeds may be income tax free, while premium payments are generally non-deductible to the Company.

- Businesses with two or more owners should fully fund their buy-sell Agreement with life and disability buy-out insurance. Review the purchase price provisions of your Agreement and ensure the Agreement is funded with the appropriate amount of insurance.

- In general, a reduction in purchase price (or "haircut") based on the occurrence of a potential transfer event may be enforceable, if the resulting purchase price still represents a reasonable value of the business interest. Consider with local counsel whether adding a haircut for specific triggering events is appropriate and would result in a reasonable purchase price.

- Since the Agreement includes an appraisal process to determine overall Company value, the business owners may want to consider if the Agreement should direct the appraiser to include or not include control premiums or minority discounts. The Agreement may also be used to instruct the appraiser regarding the desired treatment of life insurance death proceeds from Company-owned policies. Other potential valuation adjustments, such as the proper valuation standard for assets, may also be considered.

# Purchase terms

Life insurance and disability buy-out coverage may be very helpful in matching cash needs with cash flow.

| Purchase term provisions | Death | Disability |
|---|---|---|
| Required to apply insurance proceeds towards purchase price | not addressed | not addressed |
| Method for purchasing a departing owner's interest | purchaser's choice of lump sum or installments | purchaser's choice of lump sum or installments |
| Installment period | 60 months | 60 months |
| Down payment | 10% | 10% |
| Interest rate | prime plus 2% | prime plus 2% |

Comments:

- The purchase terms for other triggering events are the same as both death and disability.
- If installment payments are for a period of less than 10 years, the parties may wish to compare the likely cash needs of the Company to cash flow upon the occurrence of a buy-sell trigger. If the cash needs are substantial and cash flow limited, the parties may wish to consider provisions for payments over a longer period of time.
- The agreement should explicitly require use of available life insurance proceeds and disability buy-out proceeds to complete a sale under the Agreement.
- Since installment payments to a business owner may be scheduled beyond the unexpected death of a business owner, it may be advisable for policy owners to retain ownership of any life insurance policies on the life of the selling business owner. As the term of the note nears completion, the policy may be transferred for its fair market value as final payment.

# Funding

The ownership and beneficiary structure of life and disability insurance policies acquired for purposes of a buy-sell agreement should be aligned with the Agreement's purchase obligations.

| | |
|---|---|
| **Life insurance on business owners** | not discussed |
| **Disability buy-out insurance on business owners** | not discussed |
| **Schedule of life and disability policies included** | no |
| **Life insurance ownership and beneficiary designations aligned with Agreement** | unknown |
| **Disability buy-out ownership and beneficiary designations aligned with Agreement** | unknown |
| **Agreement discusses distribution of excess life insurance proceeds** | no |
| **Option for business owners to purchase policies when Agreement completed or terminated** | no |

Comments:

- The parties may wish to review insurance coverage. It's important to periodically update the amount of insurance in force to a level that's roughly consistent with the value of the business. The amount of insurance available to purchase depends upon the value of the business. Underwriting standards for life insurance and disability coverage are different.

- Life insurance death proceeds are income tax free to an employer only if the insurance is properly structured and the employer complies with IRC Section 101(j). Section 101(j) applies to employer-owned life insuance issued or materially changed after August 17, 2006. To preserve the favorable income tax treatment of life insurance death proceeds, Section 101(j) compliance requires written notice and signed consent by the insured employee to the placement of life insurance coverage owned by the employer. In addition, annual information reporting (Form 8925) on employer-owned policies is required by IRC Section 6039I. Cross-owned policies do not appear to be subject to these rules since they are not employer-owned.

# Funding

Additional comments:

- Many business owners find it advantageous to list all life and disability insurance policies acquired for purposes of the buy-sell agreement, including ownership and beneficiary arrangements, on a separate schedule attached to the agreement. Where life insurance policies are concerned, this practice has the advantage of not confusing whether death proceeds are to be used for key person needs of the business or to complete the purchase of a deceased owner's business interest.

- If the Agreement includes a disability trigger, or one is added, it may be helpful to review with local counsel whether the disability terms of purchase procedures in the Agreement are consistent with the claims payment procedures in the disability buy-out policy. Some disability buy-out policies may be structured by insurers as expense reimbursement policies. Therefore, a disability buy-out claim may not be payable until the buy-out of a disabled owner's interest has occurred.

- A new owner purchasing the Company on an installment sale basis may find it helpful to acquire business loan protection disability coverage to ensure a source of future payments if the purchaser should become disabled.

- The Agreement does not provide business owners an option to purchase any policies owned by the Company and/or other business owners upon termination or completion of the Agreement.

- Consider adding provisions to the Agreement that address future ownership of life insurance policies acquired for purposes of the buy-sell arrangement as circumstances change. Many agreements include provisions for the following circumstances: (1) termination of the buy-sell agreement; (2) sale of the company; (3) termination of the business owner's relationship with the company. If any of the preceding events occur, the business owner may be given the option to purchase the policy on his or her life. In addition, if the departing business owner holds a policy on the remaining business owners, the remaining owners should also be provided with the right to purchase the policies from the departing owner.

- Revenue Procedure 2005-25 generally provides valuation safe harbors for the transfer of life insurance policies from a business to an employee (including an owner-employee). The general standard of valuation is a policy's "fair market value." Generally speaking, fair market value is measured differently for different types of life insurance products and might not be respresented by a policy's cash surrender value. The insurance company providing the product is in the best position to provide the measure of fair market value for its products. Transactions between or among business owners are generally not bound by the valuation guidelines.

# Transfer restrictions

A provision limiting transfer of ownership interests is common and useful in a buy-sell agreement. Oftentimes, a business owner may not sell, assign, transfer, pledge, dispose of or otherwise encumber any of his or her interest in the Company, except as provided in the Agreement.

| | |
|---|---|
| **The Agreement includes provisions to limit the transfer of ownership** | yes |
| **Any transfer of interests in violation of the Agreement will be treated as null and void** | not addressed |
| **Transferees are treated as receiving purely an economic interest (non-voting) unless the remaining business owners agree otherwise** | no |
| **Permitted transferrees include certain family members** | not addressed |
| **Permitted transferees include certain trusts for the benefit of family members and/or for estate planning** | not addressed |
| **Any transfer that endangers an S corporation election is prohibited** | not addressed |
| **Any transfer by operation of law is prohibited under the Agreement** | no |

Comments:

- The ability to make transfers to family members or certain trusts can be particularly helpful for family-owned businesses or estate planning purposes.

# Right of first refusal

A right of first refusal provision is typically included in buy-sell agreements.  Such a provision may be helpful to a business owner wishing to exit the business but may also serve to protect the business owners from being forced to accept an outside party as a new business owner, without recourse.

| | |
|---|---|
| **The Agreement includes a right of first refusal provision** | yes |
| **Right of first refusal (1st option)** | other owner(s) optional |
| **Right of first refusal (2nd option)** | company 2nd optional |
| **Option price** | not included |

Comments:

- A right of first refusal price is generally based on (a) the Agreement price; (b) the third party offer price; or (c) the lesser of the Agreement price or the third party offer price.
- Purchase rights or options arising from the occurrence of a right of first refusal provision are typically subject to time limits.  If a right of first refusal is triggered, the parties should pay close attention to the time limit provided to exercise a purchase right or option.

# Signatures

It's important that the Agreement is signed by all parties.

| | |
|---|---|
| **Signed by all named business owners** | no |
| **Company is party to the Agreement** | yes |
| **Signed by a representative of the Company** | no |
| **Spousal consent provisions included in the Agreement** | no |
| **Signed by spouses of all business owners** | no |

Comments:

- The inclusion of spousal consent provisions and obtaining the signatures of spouses may be helpful in establishing the value of a divorcing owner's interest in the business. This could also help prevent a divorce court from using its own valuation of the business for marital property settlement purposes.

- Often, a surviving spouse may be named as executor of the estate of a business owner. A smooth transfer of shares at death may be facilitated by prior notice of the Agreement and consent by the surviving spouse.

- The parties may wish to consider adding spousal consent provisions and asking any spouses to sign the Agreement.

- An unsigned Agreement is without legally binding effect. Before signing the Agreement, ensure that the owners are satisfied it contains the needed buy-sell provisions after discussing with local counsel. Once the Agreement is in final form, it will be important for all intended parties to sign the Agreement.

# Your action plan

The following are discussion points based on the results of this report:

| Discussion points | Do I want to make a change? | Priority |
|---|---|---|
| The terms of the Agreement if a business owner dies | | |
| The terms of the Agreement if a business owner becomes disabled | | |
| Other buy-sell triggering events | | |
| The Agreement purchase price | | |
| The Agreement purchase terms | | |
| Structure and adequacy of any life and disability buy-out insurance | | |

# You benefit from a partner who 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 at Principal 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*
- Provider of complimentary business market administrative services for more than 30 unique program designs and over 16,000 plans.
- Preparer of thousands of informal business valuations since 2011.
- Reviewer of more than 1,500 buy-sell agreements since 2011.

* Based on total number of Section 409A plans, *PLANSPONSOR* 2018 NQDC Recordkeeping Survey, June 2018.

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# KEY EMPLOYEE COVERAGE

BUSINESS PLANNING

## STRATEGY SUMMARY

Small business owners put maximum effort into establishing and running their business, but are they taking the right steps to make sure the business can survive the unexpected death of a key employee? The sudden departure of a key employee could be catastrophic to a company — not because the owner did anything wrong, but because they did not do enough.

### IMPACT OF LOSING A KEY EMPLOYEE

When thinking about the continued success of a company, who would be considered a key employee? Is it the employee the owner relies on when they are not in the office? The employee who works best with customers? Or the employee who finds creative ways to finance the business?

Loss of a key employee could have devastating effects on a business, including:

- **Loss of sales due to a lack of manpower or the disappearance of personal relationships**
- **Disruption of production or operations**
- **Significant costs to search for and train a replacement for the key employee**
- **Loss of competitive position or goodwill in the marketplace**

TRANSAMERICA®

# SAFEGUARDING YOUR CLIENT'S BUSINESS

A life insurance policy, owned and paid for by the business, on the key employee's life can help safeguard your client's business by providing the needed funds to help in the transition after the loss of a key employee.[1]

At the death of the insured, the business can use the federal income tax-free death benefit to find and train a successor and to replace the revenue lost by the untimely death of a key employee. With key employee coverage in place, the company and its owners will benefit from:

**Cash reserves available to look for, hire, and train a replacement employee**

**Liquidity to cover lost revenue during the period before a replacement is hired and able to work at the same level of productivity**

**Flexibility to change the policy to a form of nonqualified deferred compensation if needs change over time**

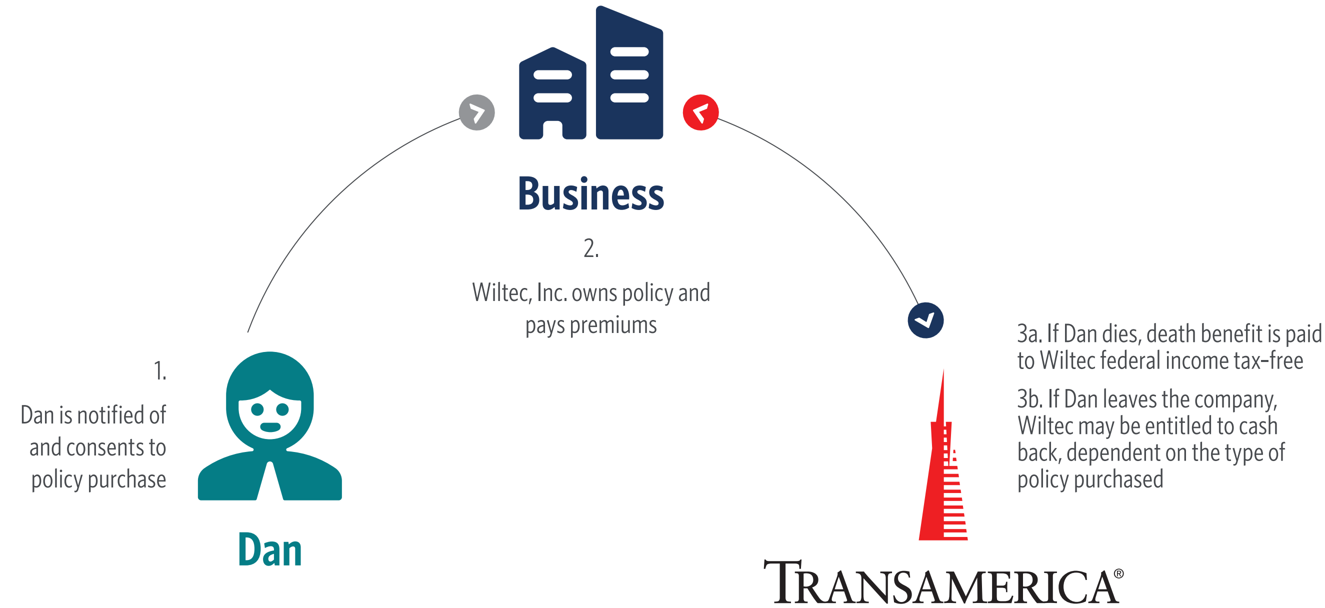
**Tax-deferred growth of the policy's cash value and access to the cash value accumulation in the event of financial need, if a cash value policy is purchased**

A policy purchased for a key employee need can provide additional benefit as a retention tool. Split-dollar arrangements are often set up with this as a key objective, granting a portion of the coverage for the employee to designate beneficiaries.

Transfer of the policy to the employee may be subject to rules on nonqualified deferred compensation. The employer should consult with their legal and tax counsel for guidance on individual specifics.

[1] For a C corporation, all or a portion of the life insurance proceeds and the annual increase in cash value may be subject to the corporate alternative minimum tax. Moreover, certain situations may result in an exception to the general rule that life insurance proceeds are federal income tax-free under IRC 101(a), including policies transferred for valuable consideration, or corporate- or employer-owned policies that do not fall within the IRC 101(j) exception.

## CASE IN POINT: WILTEC, INC.




Mike, Ron and Carol are owners of Wiltec, Inc., a computer software company that specializes in the design of animation graphics for the movie industry. The corporation has been in existence for three years and is valued at $4 million.

**Dan** is an employee of Wiltec who specializes in advanced graphic design. Dan's expertise gives the company the ability to successfully bid on and win the larger more profitable movie projects. Dan is a highly paid key employee and is provided with a generous benefits package. The owners of Wiltec realize that substantial profits originate from Dan's expertise, and that his premature death would cause financial loss to the firm.

The owners of Wiltec establish a key employee coverage plan funded with life insurance, which provides Wiltec with a number of advantages:

- **Protection from economic loss caused by Dan's death**
- **Funds to recruit and train Dan's replacement**
- **Access to the life insurance cash value for a variety of business needs, such as collateral for a loan or funding of salary continuation plans***
- **The life insurance proceeds are generally free of federal income tax**

*Loans, withdrawals, and death benefit accelerations will reduce the policy value and death benefit. Provided the policy is not and does not become a modified endowment contract (MEC), 1) withdrawals are tax-free to the extent that they do not exceed the policy basis (generally, premiums paid less withdrawals and 2) policy loans are tax free as long as the policy remains in force. If the policy is surrendered or lapses, the amount of the policy loan will be considered a distribution from the policy and will be taxable to the extent that the loan and other distributions on lapse or surrender exceed the policy basis.

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Principal®

Key employee retention and retirement

# Key employee benefits can be your key to success

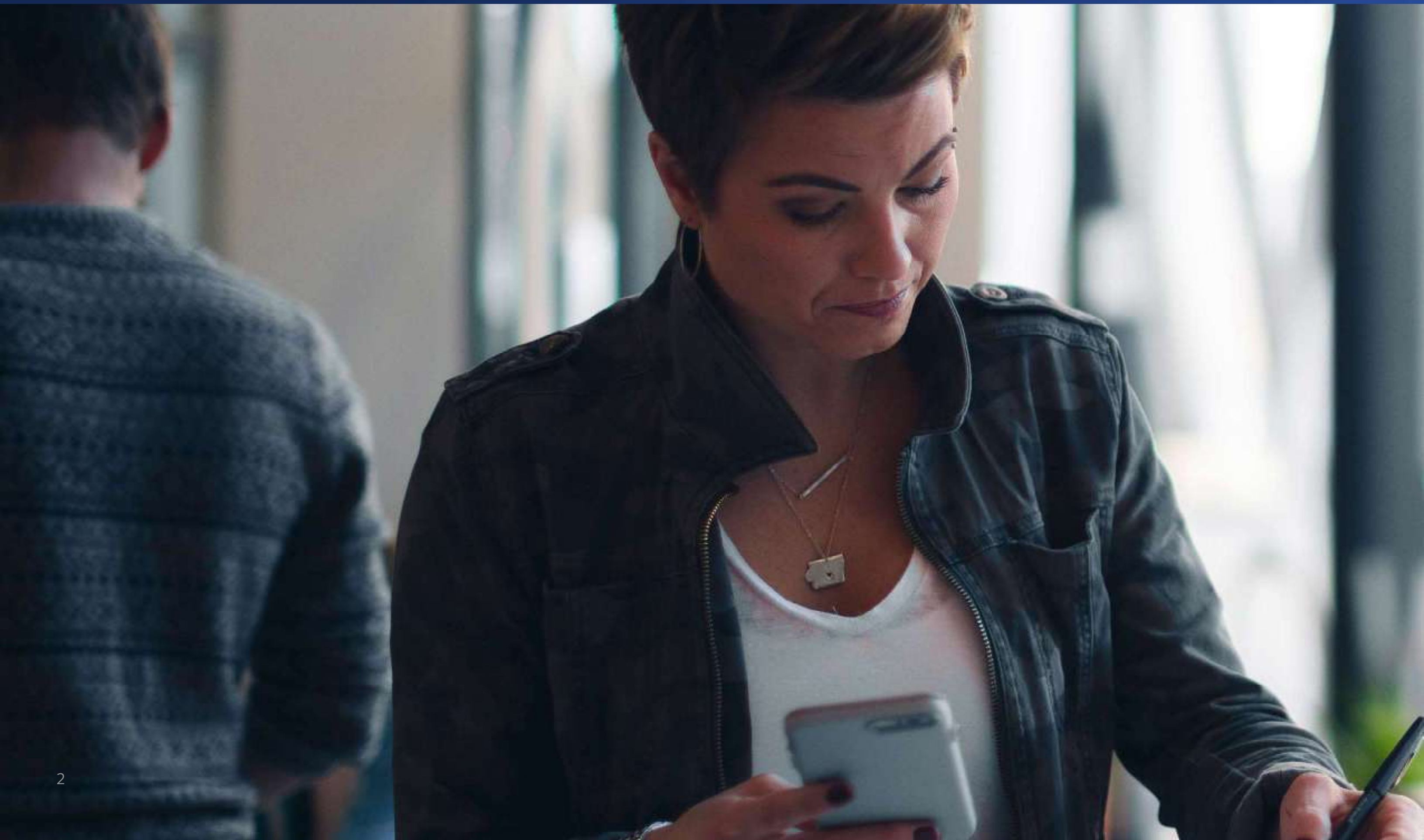
# The right benefits can make all the difference

Take a moment to think about the success of your business. How much of that success is related to your employees? Chances are, you have select key employees that play important roles in your organization. Where would you be without them?

Having the right tools to recruit, reward, retain, and retire those key employees can make all the difference. Key employee benefits can play a big role in helping you by helping them. These plans can provide significant advantages—like helping them make up for benefits lost due to limitations on qualified retirement plans and Social Security. The result? More engaged and loyal employees and a great recruiting tool, too.

Will your key employees be able to save enough money for retirement with the current benefits you have in place?

Do your competitors offer benefits that might draw valuable employees away from your organization?



# The benefits

Could key employee benefits really have an impact?

Yes. Specifically, these plans help you:

### RECRUIT

Attract top talent as part of a competitive benefits package.

### REWARD

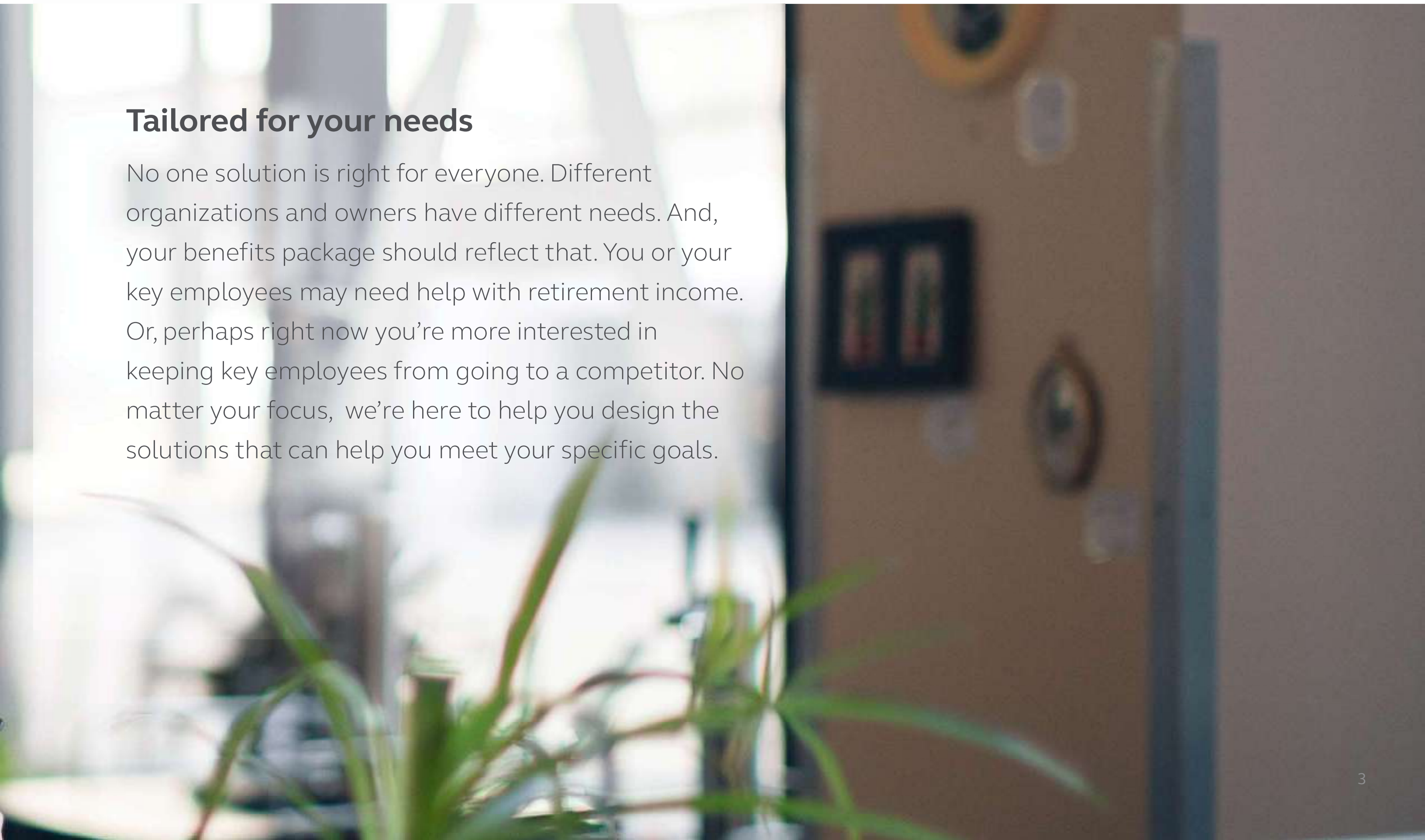
Provide performance-based contributions to achieve organizational goals.

### RETAIN

Encourage loyalty by helping to secure financial futures.

### RETIRE

Offer additional savings and long-term income diversification options.



## Tailored for your needs

No one solution is right for everyone. Different organizations and owners have different needs. And, your benefits package should reflect that. You or your key employees may need help with retirement income. Or, perhaps right now you're more interested in keeping key employees from going to a competitor. No matter your focus,  we're here to help you design the solutions that can help you meet your specific goals.

# The right solution is easier with the right partner

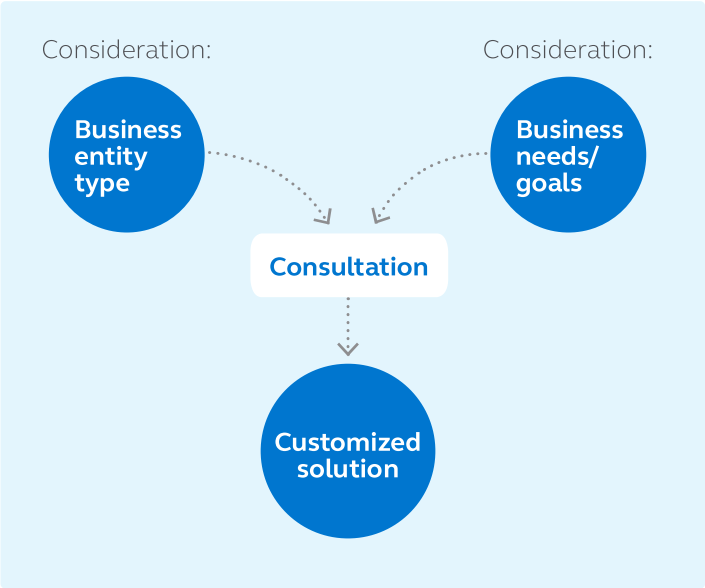
There's a fair amount to think about when you're designing and implementing a plan. Which plan fits your needs? How will you pay for it? How will you administer it? We walk you through all of that. And we're not just here now, but throughout the lifetime of your plan.

While the plan itself is a core part of your key employee benefits solution, there's so much more to consider. To make it as effective as it can be, consider the total package—**solutions, expertise, and service**. When you work with Principal®, you get all of this in one place.

## Solutions

It all starts with the right plan. You'll want a plan that fits your business type and overall goals. Then, it's important to have funding options that are designed for your specific business needs.

It doesn't matter if your organization is for-profit or tax-exempt, Principal offers multiple, unique solutions designed for all types of businesses. Each plan is structured to achieve the unique goals of the plan sponsor. Some offer tax benefits for your business, others for the participant. Others may allow for participant deferrals, discretionary employer contributions, or both.



# Expertise

There's a lot to consider when designing and implementing an effective key employee benefits plan. That's why it's helpful to work with a provider that has the expertise and experience to understand how to turn your objectives into a successful plan, all while watching out for your bottom line. Over decades, we've worked with thousands of businesses. And every day, we'll put that experience to work for you.

**Consultation.** Our team of business solutions experts, including attorneys, CPAs, and case design specialists, are here to help you find the right solution for your business. They can provide guidance and work with your professional advisors on the many factors that influence your plan's design and success.

These factors include:

- Who can participate in the plan?
- Who can contribute to the plan?
- How will the plan be financed?
- What are the vesting options?
- When will benefits be paid?
- Is your focus on employee retention?

**Financing.** What's the best financing strategy for your business and your plan? Life insurance, taxable investments, or something else? To help you weigh your options, Principal creates detailed financial models based on your organization's assumptions. These models compare multiple financing techniques to illustrate the impact to company cash flow, tax, financial statements, cost, and long-term performance. And, throughout the life of your plan, periodic plan status and strategy reviews are available to assess financing status relative to your goals.

**Administrative services.** You don't have to take care of the ongoing management of your plan all by yourself. Lean on the expertise of our case design specialists and administrators to be there throughout the life of your plan. We keep track of legislative changes that might impact your plan, as well as consult with you on any other plan adjustments that may be needed as your objectives evolve.

This is what we do every day, and we've learned a few things along the way. Some organizations look like yours, while others are different. But, our service matches your specific plan's design. We currently provide administrative services for nonqualified key employee benefit plans that serve more than 4,800 plans, representing almost 78,000 plan participants.[1]

[1] As of Dec. 31, 2020.

# Service

You don't want administration of your plan to take time and attention away from focusing on your business. That's why exceptional service and support are essential. When you have a plan from Principal, we focus on the plan details so you don't have to. Our robust administrative services help ensure that the initial and ongoing needs of your plan are met.

Dedicated administrators personally assist you with the day-to-day aspects of your plan.

- Plan implementation/new enrollments
- Online access—for both employers and plan participants
- List billing/periodic premium payments
- Ongoing policy administration and service
- Annual plan-level reporting
- Plan status and strategy review
- Plan participant education—for the more robust plan designs that may require a little extra help explaining the benefits

## A lot rests on the success of your business

Your business provides financial well-being to you and your employees. That's why Principal wants to help you protect it. Whether you want to grow your business, provide benefits to your key employees, or prepare for the unexpected, we can help you find the right solution to any challenge.

**Protect your business.** Plan for the future with buy-sell and business-transfer strategies for closely held companies, key employee benefits, and key person protection.

**Protect your employees.** Recruit and retain good people with key employee benefits, qualified retirement plans, and group benefits.

**Protect your lifestyle.** Maintain your family's current standard of living with life insurance and disability income insurance, and help meet lifetime objectives through legacy and estate planning.

# Let’s get started

As you think about establishing or enhancing a key employee benefit plan, here’s our commitment to you:

**We’ll listen.** We need to better understand the unique needs of you, your business, and your key employees in order to present you with appropriate options.

**We’ll provide consulting expertise.** Our team of experts will be with you throughout all phases of the process—plan design, financing options, and administrative services. The decisions you make can help you maximize the benefits you provide, so we want you to have all the information you need.

**We’ll deliver a tailored solution.** Plan design and administrative services should fit your needs—both today and tomorrow. Goals and objectives can change, and so can regulations. That’s why we’ll periodically review your plan design and financing options to make sure everything is still in check.

**We’re ready to work with you and your financial professional today.** Together, we can create or enhance a key employee benefit plan to match the needs of your organization and your top talent.

# Your goals, our purpose

No matter what's important to you, your advisors and Principal are here to help you identify and implement solutions that are right for you, your business, and your employees. We've been administering business cases for more than 30 years and make it a priority to understand where you want to be and how you plan to get there. This means you'll get expertise and innovative ideas when you need them to help make your financial progress possible.

**Strength you can depend on**

A member of the FORTUNE 500®, we have $807 billion in assets under management[2] and serve clients worldwide of all income and portfolio sizes.

Year after year we receive strong financial ratings from the four major rating agencies—A.M. Best Company, Moody's Investor Services, Standard & Poor's, and Fitch Ratings.[3]

No. 1 provider of nonqualified deferred compensation plans.[4]

Our innovative business solutions include more than 30 plan types and serve almost 24,000 employers.[5]

[2] As of December 31, 2020.

[3] Third-party ratings relate only to Principal Life Insurance Company, the largest member company of the Principal Financial Group, and Principal National Life Insurance Company, and do not reflect any ratings actions or notices relating to the US life insurance sector generally. A high rating by a particular firm does not constitute an endorsement of the rated insurer by the ratings firm.

[4] Based on number of Section 409A plans, 2021 PLANSPONSOR Defined Contribution Plan Benchmarking Report, June 2021.

[5] As of December 2020.

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Key person insurance

# Recover from the unexpected loss of top talent

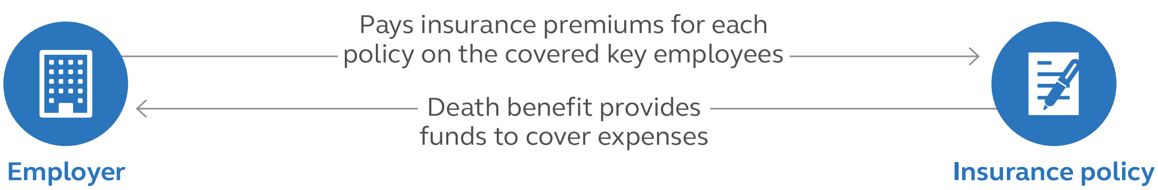
Oftentimes, the most valuable assets of any business are the key people who contribute most to its success. They generate revenue, handle major responsibilities, and have a unique wealth of knowledge that seems irreplaceable.

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.

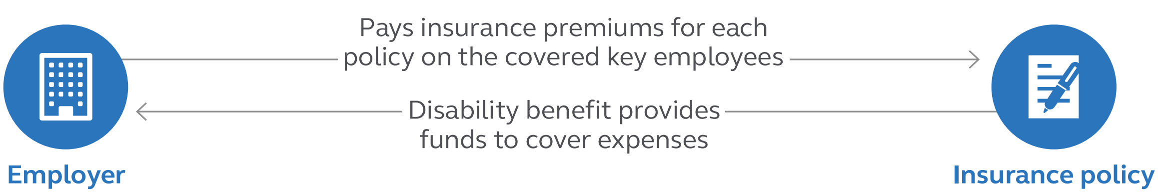
## Protection for a loss

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 does happen, the business receives funds, generally income-tax free, to help overcome the financial challenges of the loss.

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




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



## 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.

### Advantages

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

**Cash value potential with permanent policy.** Potential cash values remain an asset on your balance sheet and can be used for other business expenses, such as a key employee benefit program.

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

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

**Personal Disability Income insurance potential.** The business policy does not limit the personal income protection available from Principal to your employees.

Key person insurance helps to give you added protection and confidence that your business will have the funds necessary to recover from the loss of top talent.

Learn more | Contact your financial professional today.

Principal®

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LH160C-01 | 07/2021 | 1683760-072021 | 

Principal®

**Proposal**

Business and key person protection

# Protect your business from the loss of top talent

Presented to

Sample Business

Presented by

Valued Producer
(555) 123-4567
Producer@emailaddress.com

# You can be better prepared for the unexpected

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

Key employee contributions can be difficult to measure, and may be more robust than you might think. It's likely that the time it takes to find a replacement, if something happens to them, would create a financial challenge that could put the business at risk.

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

**How it works**

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

**Key Person Life Insurance**


**Key Person Replacement Disability Insurance**


**Determine the right amount of coverage**

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

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

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

# Valued Employee, Sales VP

## Estimated Key Person Life insurance needs

| | Coverage type | | |
|---|---|---|---|
| | Base-level (Scenario A) | Moderate-level (Scenario B) | High-level (Scenario C) |
| **Key characteristics** | | | |
| Number of total employees | 11-50 Employees | 11-50 Employees | 11-50 Employees |
| Number of key employees | 1-5 Key employees | 1-5 Key employees | 1-5 Key employees |
| Difficulty to replace | Very difficult | Very difficult | Very difficult |
| **Base protection** | | | |
| Total compensation | $200,000 | $200,000 | $200,000 |
| Multiply by factor[2] | x 3.0 | x 4.5 | x 7.0 |
| Base protection needs | $600,000 | $900,000 | $1,400,000 |
| **Additional coverage** | | | |
| Key employee benefits | $0 | $0 | $0 |
| Total other needs | $0 | $0 | $0 |
| **Range of coverage** | **$600,000** | **$900,000** | **$1,400,000** |

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

**Key Person Life insurance coverage type**

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

[2] This factor is determined by the size of the organization, number of key employees, and level of difficulty to replace.

# Key person term life insurance coverage

The affordable, limited duration of term insurance may be a great fit to help protect your business. And Principal® offers multiple coverage durations to meet your specific needs.

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

Key person term insurance coverage for:

**Valued Employee,** Age 45[3], Female, Super Preferred, Non-Tobacco

| | | Annual premium | | | |
|---|---|---|---|---|---|
| Scenario | Death benefit | 10-year | 15-year | 20-year | 30-year |
| A: **Base-level** | $600,000 | $327 | $386 | $516 | $854 |
| B: **Moderate-level** | $900,000 | $453 | $541 | $737 | $1,243 |
| C: **High-level** | $1,400,000 | $600 | $797 | $1,087 | $1,887 |

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

Our base conversion feature is included with the Term product options displayed in the above table. The Conversion Extension Rider has not been included. If a longer conversion period is desired, Term products can be quoted to include the Conversion Extension Rider.

**Employee retention strategy —** If keeping your key employees is a concern, consider a retention bonus plan that allows you flexibility as well as funding to protect your most valued employees under multiple scenarios.

[3] Principal product quotations utilize an insured's age nearest birthday.

# Valued Employee
## Estimated Key Person Replacement needs

| | Coverage level | | |
|---|---|---|---|
| | **Base-level** | **Moderate-level** | **High-level** |
| **Key characteristics** | | | |
| Total compensation | $200,000 | $200,000 | $200,000 |
| Occupation class | 5A | 5A | 5A |
| **Base protection** | | | |
| Elimination period | 180 days | 180 days | 180 days |
| Lump sum benefit | $200,000 | $400,000 | $500,000 |
| **Additional information** | | | |
| Waiver of premium | Included | Included | Included |
| Length of coverage | To age 65 | To age 65 | To age 65 |

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

**Key Person Replacement coverage type**

| | | |
|---|---|---|
| **Base-level** | (1 times salary up to $300,000) | Provides proposed coverage based on a projected base-level multiple of salary. |
| **Moderate-level** | (2 times salary up to $400,000) | Provides proposed coverage based on a projected moderate-level multiple of salary. |
| **High-level** | (3 times salary up to $500,000) | Provides proposed coverage based on a projected high-level multiple of salary. |

# Key person replacement insurance

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

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

Key person disability insurance coverage for:

**Valued Employee,** Age 45[4], Female, Occupation class 5A, Non-Tobacco

| | Elimination period | Benefit type | Annual premium |
|---|---|---|---|
| A: **Base-level** | 180 days | $200,000 Lump sum | $2,080 |
| B: **Moderate-level** | 180 days | $400,000 Lump sum | $4,160 |
| C: **High-level** | 180 days | $500,000 Lump sum | $5,200 |

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

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

[4] Principal product quotations utilize an insured's age nearest birthday.

# Properly funding your business protection plan

## Advantages

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

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

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

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

## Considerations

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

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

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

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

## Next steps

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

## NOTES

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

Learn more | Contact Valued Producer at (555) 123-4567
or Producer@emailaddress.com

**principal.com**

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

Principal National Life Insurance Company Policy Form: ICC17 SN104/SN 104, Rider Forms: SN 2, SN 3, SN 4, SN 5, and ICC17 SN 105/SN 105

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



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# Protect and grow your business

## Rely on Lincoln business life insurance solutions

LIFE SOLUTIONS

**Client Guide**

Insurance products issued by:
The Lincoln National Life Insurance Company
Lincoln Life & Annuity Company of New York

2788605

| | | |
|---|---|---|
| Not insured by any federal government agency | Not a deposit | Not FDIC-insured |
| May go down in value | Not guaranteed by any bank or savings association | |

# How will you continue to find business success?

As a successful owner, you know it takes more than hard work to ensure prosperity for your business. You need ways to protect your company, compete for top talent, reward your employees, and plan for a financially secure future. Lincoln can help you meet these goals so you can focus on growing your enterprise.

| | | Gain advantages for your business and your employees |
|---|---|---|
| Retain, reward and recruit key talent | SERP nonqualified deferred compensation | ▪ Attract new talent with an enhanced executive compensation package.<br>▪ Retain top talent with custom-designed plans. |
| | Split-dollar plan | ▪ Fund benefits in a financially attractive way.<br>▪ Provide control and flexibility for your company.<br>▪ Incentivize select employees through tax-advantaged benefits that contribute to their financial security. |
| | 162 executive bonus plan | ▪ Compensate key employees in a simple but unique way.<br>▪ Reward employees critical to your success.<br>▪ Provide benefits with tax-deductible dollars. |
| Ensure business continuity | Key person coverage | ▪ Prevent revenue loss due to the death or departure of a key employee.<br>▪ Have capital available to recruit and train a replacement. |
| Transfer business interests efficiently | Buy-sell agreement | ▪ Facilitate an efficient transfer of your business interest.<br>▪ Help assure business continuity.<br>▪ Plan so you may receive a fair price for your business.<br>▪ Feel confident you can retire when you want.<br>▪ Prepare for your family's financial security. |

# Insure the orderly transfer of your business

Buy-sell agreement

## The strategy: Buy-sell agreement

Succession planning is important to every business because it helps ensure an orderly transition if a shareholder, owner or business partner would retire, become disabled or pass away. If one of these triggering events occurs, a buy-sell agreement is a binding contract governing what happens to an owner's or shareholder's business interest. It can have the terms and valuation methodology for a buyout of their business interest. And because life insurance has unique advantages, such as immediate cash available to purchase a deceased owner's interest, it's an excellent choice for funding a buy-sell agreement.

## How buy-sell plans funded with life insurance works

**Cross-purchase plan**

- Each owner has an agreement that their business interest will be exchanged directly with other co-owners or identified buyers.
- At death of an owner, life insurance proceeds paid directly to surviving owner provide an immediate source of liquidity to allow for the purchase of shares from deceased owner's estate.

**Entity purchase or stock redemption plan**

- Each owner enters into an agreement with the business for the sale of their respective interests in the business.
- As part of this agreement, the business will purchase separate life insurance contracts on the owners' lives. The business pays the premiums and will be the owner and beneficiary.

**Advantages for your business**

- Business value is established and the purchaser(s) of the business interests are identified.
- Continuity is maintained for the owners' customers, employees and creditors
- Assures that a deceased or disabled owner's share of the business will not transfer to an unsuitable owner

**Advantages for owners**

- Establishes a ready market for your business interest
- Facilitates the orderly transfer of ownership
- Buy-out proceeds can provide estate liquidity to offset debt, expenses and taxes, and potentially provide an income stream for loved ones on the owners' lives. The business pays the premiums and will be the owner and beneficiary.

# Protect your business from the loss of a valuable employee

Key person coverage

## The strategy: Key person coverage

You carry insurance coverage to protect your business from the loss of property and equipment, but what about your most valuable asset — your key employees? A key employee may be a co-owner or partner, top executive or important member of your organization with unique talents, experience or skills critical to the prosperity of your business. Key person life insurance protects your business from the financial impact of the loss of an essential employee.

## How key person insurance works

**Your business**

Purchases a life insurance policy on a key employee after giving them notice and receiving their consent

**Advantages for your business**

- Income tax-free death benefit proceeds paid to the business if key employee dies while policy is in-force[1]
- Death benefit proceeds to fund recruitment and training efforts to replace a key employee[2]
- Capital to replace profits or help settle any loans due or for other expenses as your company transitions[2]

[1] For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (the transfer-for-value rule), arrangements that lack an insurable interest based on state law, and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

[2] Annual increase in policy cash values and death benefit proceeds may have corporate alternative minimum tax implications.

# Reward the key employees you select

**Retain, reward and recruit key talent**

## The strategy: Executive bonus plan (I.R.C. 162 bonus)

An executive bonus plan using life insurance can provide a simple yet powerful addition to your total executive compensation benefit package for your top performers. You maintain control of who will participate and can choose to provide a single bonus to your employee or "gross" the bonus up. There's little to no out-of-pocket expense to your employee. And if you're concerned about employee retention, you could restrict your employee's access to the policy's cash value for a period of time, such as until retirement.

## How an executive bonus plan works

**Your business**

Pays a tax-deductible bonus to cover premiums for a life insurance policy owned directly by your employee

**Your employee**

Designates a policy beneficiary and pays income tax on the bonus received

**Advantages for your business**

- Discretion to select which employees can participate
- A plan that's easy to implement and maintain
- An immediate tax deduction for the annual bonus paid[3]

**Advantages for your employee**

- Policy ownership and control of cash value and beneficiary designation
- Cash value that grows tax-deferred
- A tax-efficient income supplement through policy loans and withdrawals[4]
- A legacy asset that transfers to their beneficiary income tax-free

[3] The deductibility of the bonus is subject to the reasonable compensation limits established by Internal Revenue Code Section 162(a).
[4] Policy loans and withdrawals will reduce death benefit and policy values.

# A mutually beneficial plan for you and your top talent

**Retain, reward and recruit key talent**

## The strategy: Split-dollar plan

A split-dollar life insurance arrangement is a cost-efficient way to offer supplemental retirement income, valuable death benefit protection, or both to the employees you select. It's mutually beneficial because you and your employee agree to share the benefits of a life insurance policy. Premiums are generally funded exclusively by your business, and the plan can be designed to leverage the amount of policy control you'd like to have.

## How a split-dollar plan works

**Your business**

Enters into a written split-dollar agreement, which specifies the rights and responsibilities of each party, with each selected employee

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**Your employee**

May pay income tax on the economic benefit received or on interest expense of the loan.

**Advantages for your business**

- Discretion to select which employees can participate
- A flexible plan that's generally easy to implement and maintain
- Plan design options to help reduce impact to company's financial reporting
- Potential cost recovery available

**Advantages for your employee**

- Potential to have tax-advantaged income through policy loans and withdrawals, depending on the type of split-dollar arrangement[1]
- An income tax-free death benefit
- A cost-effective way to obtain survivor benefits and supplemental retirement income

# Reward top executives with supplemental retirement income

**Retain, reward and recruit key talent**

## The strategy: Supplemental Executive Retirement Plan (SERP)

An attractive compensation tool designed to help top executives and certain owners supplement their retirement income. Because traditional retirement plans have contribution limits, high-income earners could face a retirement income gap if they solely relied on qualified plans. A SERP is an employer paid deferred compensation agreement that provides supplemental retirement income to your key employee, based on the employee meeting certain vesting or other specific conditions.

## How a SERP works

**Your business**

Enters into a SERP agreement with a selected key employee, often coinciding with purchasing a life insurance policy on the employee's life with their written consent

**Your employee**

Receives a taxable promised benefit from the company upon retirement or disability from policy loans, withdrawals or current cash flow[1]

**Advantages for your business**

- An impressive recruitment and retention tool
- When funded with life insurance, company obtains a tax-advantaged asset to pay benefits.
- Tax-deductible benefit payment
- Less administration and funding than traditional qualified plans[2]
- Potential to recover plan costs with income tax-free death benefit proceeds received if the key employee dies[3]

**Advantages for your employee**

- Potential to have survivor benefits for their loved ones
- A tax-deferred benefit to reward key employees for their contributions to the business.

[1] Policy loans and withdrawals will reduce death benefit and policy values.

[2] This type of plan may need to comply with IRC Sec. 409(a).

[3] If certain requirements under IRC section 101(j) are not met, the death benefits of an employer-owned life insurance contract entered into after August 17, 2006, will generally be taxable income to the employer to the extent the death benefit proceeds exceed the premiums paid.

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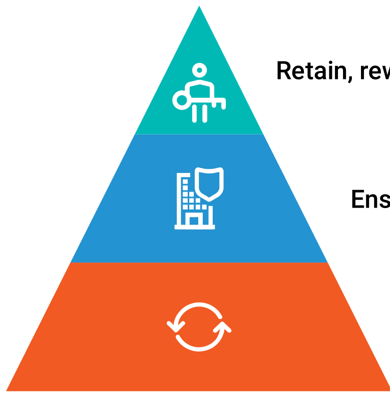

- **Retain, reward and recruit top talent**
- **Ensure business continuity**
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# Planning For The Future:
## A Guide for Small Business Owners

Transamerica®

You've worked hard to build your business—putting in countless hours during the week, sacrificing weekends and postponing vacations. Have you thought about what would happen to your business when you finally decide to retire—or if you should become disabled or die?

# Planning for your Business' Future

Like estate or retirement planning, business succession planning is something that most people —no matter how financially or professionally savvy they are— would rather put off indefinitely.

When business owners do not make any contingency plans to transfer the business in the event of retirement, disability, death or other circumstance resulting in a separation from the business, negative consequences can arise for the owner, his or her loved ones, the remaining owners, employees and the business itself.

The death or disability of a principal owner of a closely held business can create serious financial problems for the estate, the business, and the survivors of the deceased. In fact, studies show that a little more than 30% of all family-owned businesses survive into the second generation, 12% into the third generation, and 3% operating at the fourth-generation level and beyond.[1]

If you're a certified professional, such as an engineer or accountant, then the pool of potential candidates is even smaller because your successor would also need the correct credentials and certification to take over the business. Thus, even if you wanted to create a business succession plan, you may have to go through the process of locating a third-party buyer.

This is where a buy-sell agreement becomes a useful alternative. Having a buy-sell agreement in place can help business owners mitigate conflict and speed up the transition by creating a road map for the future. A buy-sell agreement is a legally binding contract that can be used with all types of businesses. Life insurance may be purchased to help fund the agreement at the owner's death or retirement.

**What is at stake?**

Without a succession plan in place, a business could suffer the following events at the owner's death or disability:

- Downturn in revenue, resulting in inability to make payroll or other liabilities
- Loss of clients due to a lack of trust or image of instability
- Reduction or complete loss of income stream for the owner's spouse and family
- Poor operational decisions from uninformed or unqualified employees or family members
- Conflicts and disagreements amongst family members and employees
- Employees defecting to competitors
- Liquidation for certain businesses such as sole proprietorships or professional companies

[1]Family Business Alliance. Retrieved June 2014: http://www.fbagr.org/index.php?option=com_content&view=article&id=117&Itemid=75

# Funding a Buy-Sell Agreement

Having a buy-sell agreement in place is crucial for business owners who want to ensure a trouble free transfer, as well as the continuing vitality of their businesses. There are four primary ways to fund a buy-sell agreement:

## Pay Cash

This requires large sums of liquid assets that may not be readily available, particularly when an unforeseen event occurs. The client may have to liquidate their valuable personal or business assets at below-market value to quickly raise enough cash.

## Borrow the Money

The loss of an owner or key person may significantly impact the credit rating of the business and its ability to borrow. Additionally, the business owners must pay principal plus interest. This could be a tremendous strain on the business budget.

## Installment Sale

Under an installment plan, the remaining owners of the business make regular payments to a departed owner or a deceased owner's heirs in exchange for their share of the business.

Deceased or departed owner/shareholder's family would receive compensation over time rather than a lump sum, and may rely on continued success of business to receive payment—which cannot be guaranteed.

## Purchase a Life Insurance Policy

With a life insurance policy, money is available from the policy cash value or death benefit for the purchase of the business interest. This liquidity is available at the time it is needed without the need to raise funds by either selling the business or borrowing funds. Policy cash values grow tax deferred and death benefits are federal income tax–free.*

*For a C corporation, the annual increase in cash value and the life insurance death benefits may be subject to the corporate alternative minimum tax.

### What are the Benefits?

Retirement, disability and death are facts of life. However business owners who take the time to develop a blueprint for what should happen to their business if—or when—something happens, will gain more than just peace of mind.

- Allows the business to continue without losing revenue or assets after the owner is gone.
- Determine who will continue to run the business so that it can remain closely held if desired, or prevent the termination of business status, such as a subchapter S corporation election.
- Reduce the chance of complications during transition that could threaten the future of the business, or the value or income to the surviving co-owners and the owner's heirs.
- Reduce difficulties in transferring the owner's interest in the business.
- Provide the estate with liquidity to pay taxes and allow for pre-funding, often with life insurance.
- Establish an agreed method of valuation for a departing or decedent owner's interest in the business.

# Conclusion

After many years of effort and hard work of building your business it is only natural to want it to survive and continue even after you are gone.

Successfully transitioning a business can be a challenge. Creating a business continuation plan can help you ask the right questions, clarify your goals, and identify a source for funding your succession plans.

# Strength and Stability from an Industry Leader

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