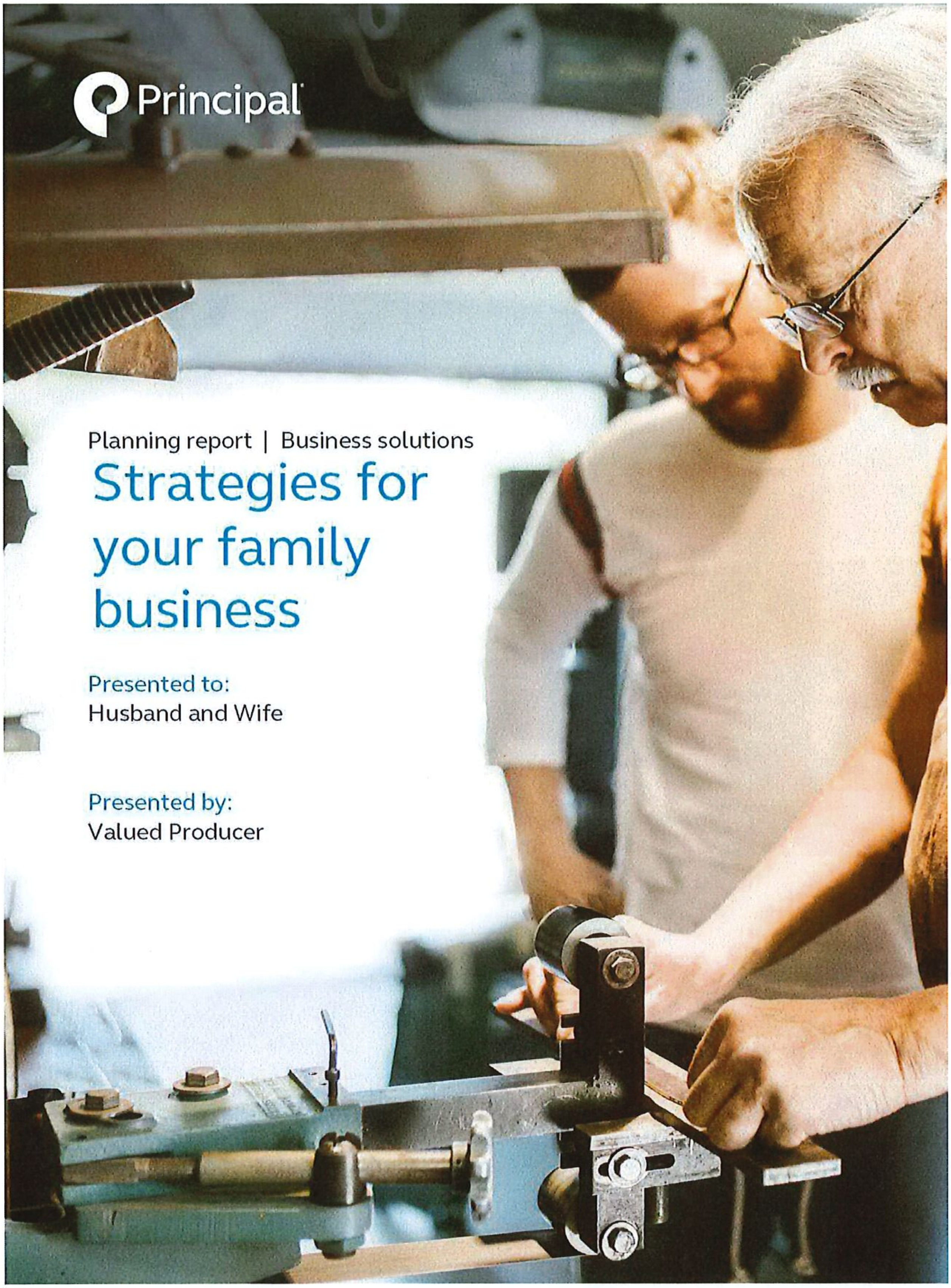


Principal

Planning report | Business solutions

Strategies for your family business

Presented to:
Husband and Wife

Presented by:
Valued Producer

Table of contents

Your business

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

- Live your best life
- Protect the legacy you've worked hard to build
- Keep peace in the family

Reviewing this personalized report is an important next step.

Your personalized family business planning report from Principal® uses information you provided to develop a simplified starting point. It will help you begin creating a plan for your personal financial future, or for the next generation's ownership. From here, we'll work with you and your tax and legal advisors to develop solutions that work best for you. We've outlined this easy-to-use five-step process to help you get started:

Step 1 Provide information → **Step 2** Set & prioritize goals → **Step 3** Analyze the proposed solutions → **Step 4** Implement your plan → **Step 5** Review & update

Reviewing this personalized report is an important next step.

Take a look at these three planning categories designed to help you and your family work together to realize long-term planning goals:

Succession strategies	Retirement income	Estate planning
Buy-sell arrangements	Retirement analysis	Wills & trusts
Succession plan funding	Supplemental income	Inheritance equalization
Key person protection	Chronic illness protection	Estate taxes
Key person retention		Gifting techniques

Your profile

You

Name	Date of birth	Occupation	Number of remaining working years	Notes
Husband	1/1/57		6	
Wife	1/1/58		8	

Your children

Name	Date of birth	Spouse	Number of children	Notes
Child #1	1/1/80		3	
Child #2	1/1/82		0	
Child #3	1/1/84		2	
Child #4	1/1/86		0	

Your parents

Name	Date of birth	Number of children	Do they have an estate plan?
Dad	1/1/30		Yes
Mom	1/1/36	3	Yes
Dad	1/1/30		Yes
Mom	1/1/36	1	Yes

Summary information

Business name	Successor(s)	Entity type	Description
ABC Business	Child #1 and #4	LLC	Construction Co.

Your goals

Plan for your transition with a succession strategy

If you are like most business owners, you have not given much thought to how, when and to whom you will transfer your business. Too often, your everyday business gets in the way of long-term planning. Someday, you will leave your business, whether by a planned or unplanned event.

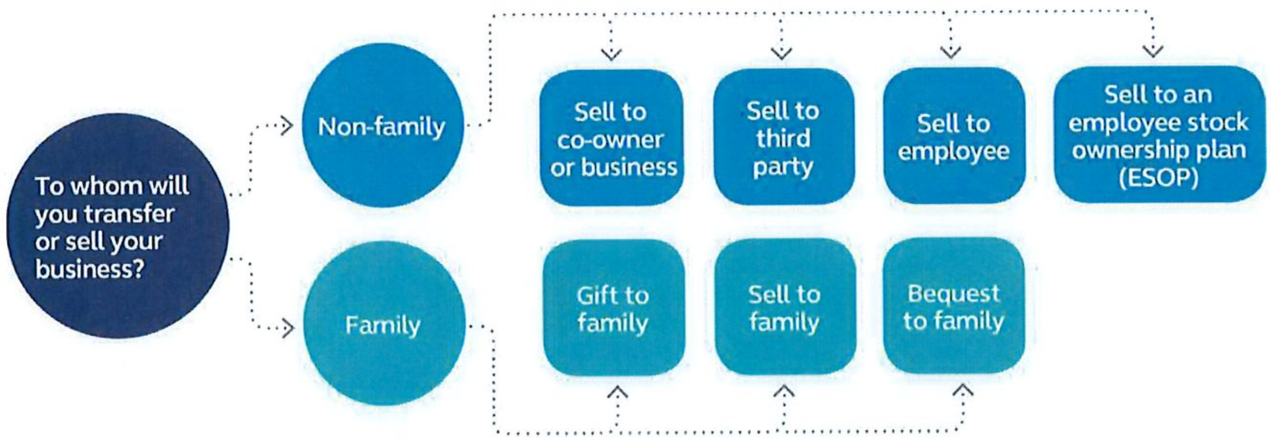
It is important to make plans to exit your business on your terms - no matter what the circumstances are. This planning can help protect you and your family under many contingencies: retirement, death, disability, personal bankruptcy or even a divorce.

Key items to consider

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

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

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



Your goals (continued)

Who

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

Timing

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

Asset distribution

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

Retirement income

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

Legacy and estate planning

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

Financial summary

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

Real estate	Owner	Value	Liabilities
Residence	Joint	$750,000	$0
Business building	Joint	$2,000,000	$0
Vacation home	Joint	$500,000	$0
	Subtotals	$3,250,000	$0

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

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

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

Financial summary (continued)

Personal assets	Owner	Value	Annual contributions
Cash & equivalents	Joint	$200,000	$0
Investments	Joint	$250,000	$0
Annuities - you	Husband	$0	
Annuities - spouse	Wife	$150,000	
Retirement plans - you	Husband	$200,000	$0
Retirement plans - spouse	Wife	$200,000	$0
IRAs - you	Husband	$0	$0
IRAs - spouse	Wife	$50,000	$0
Roth IRAs - you	Husband	$50,000	
Roth IRAs - spouse	Wife	$50,000	
Other			
	Subtotals	$1,150,000	$0
Total			$12,500,000

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

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

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

Informal business valuation

The informal valuation of your business

It's important to know the current value of your business in order to know how much it can contribute to your retirement income goal. There are different methods for determing value and no one method is always appropriate. Ultimately, the "fair market value" of a business is the amount agreed upon by a willing buyer and a willing seller. Neither party is under any compulsion to buy or sell, and both must have reasonable knowledge of all the relevant facts.

Here are some considerations when valuing a business:

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

The value of your business

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

Principal offers a complimentary informal business valuation for many businesses, using five generally accepted methods of valuation. If you would like to consider requesting a complimentary informal business valuation on your business, let's discuss whether this may be an appropriate service for you.

Owner	Ownership %	Value today
Dad	40%	$3,200,000
Mom	40%	$3,200,000
Child #1	5%	$400,000
Child #2	5%	$400,000
Child #3	5%	$400,000
Child #4	5%	$400,000
Totals	100%	$8,000,000

Comments and considerations

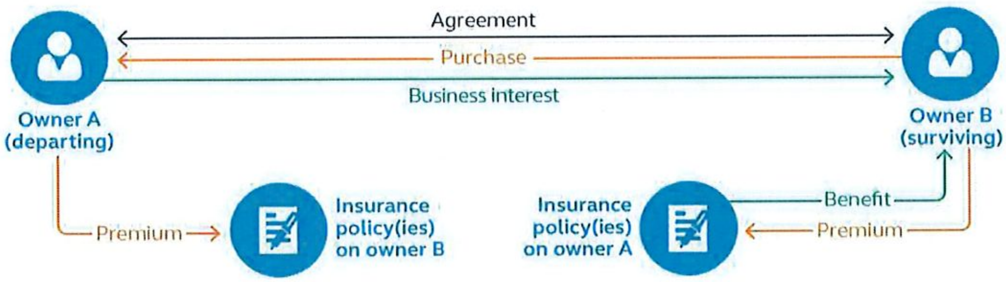
- Understand the value of your business and how this relates to your business succession goals.
- Explore whether a complimentary informal business valuation from Principal is appropriate for you.

Succession strategies
Buy-sell arrangements

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

How a cross purchase buy-sell works

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



What you need to know

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

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

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

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

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

Comments and considerations

- Consider establishing a buy-sell agreement with your successor.
- Discuss with local counsel whether a cross purchase buy-sell is best suited for your needs.
- Please see the buy-sell funding page to examine funding options.

Succession strategies
Buy-sell funding

Need for funding
Buy-sell agreements involve the selling and buying of a departing owner's interest in accordance with the formal agreement. It is important for all owners to have a plan for securing the money needed to complete this transaction when it occurs. Various options exist for the owners.

Funding methods
Cash - Requires that sufficient funds be available to pay the full price in the designated timeframe.

Borrowing - Involves future unknown factors such as credit availability and cost of borrowing. Any borrowed funds must be repaid with interest.

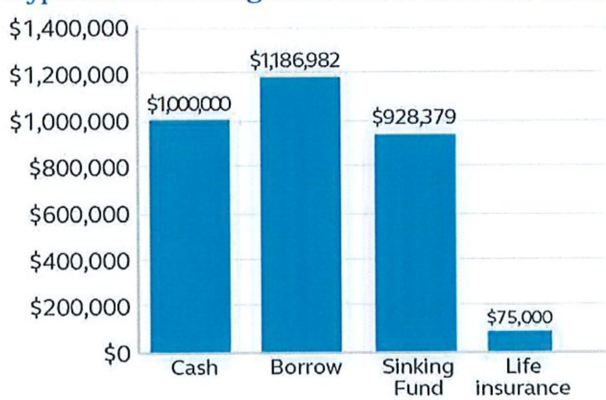
Saving - Does not assure sufficient funds will be available when needed because the timing of departure is not predictable.

Installment sale - Requires repayment from earnings and forces your heirs to rely upon the future success of the business in order to make payments.

Life Insurance - Is purchased on the owners at the time the buy-sell agreement is implemented. This option provides liquidity when needed. Upon death, the buyer receives the insurance benefit, which can be used to fund the purchase of the business.

Timing of liquidity and cost are important considerations when determining an appropriate funding method for your situation. Compare these hypothetical protection costs for a $1,000,000 purchase price.

Hypothetical funding method cost at end of the 15 years



Cash	$1,000,000
Borrow	Represents five equal annual payments of $200,000 plus interest at 6%.
Sinking Fund & cash	Sinking fund of $146,621 (annual deposits equal to the life insurance premiums growing at 8%) plus the balance necessary of $853,379 in cash.
Insurance	Life – $1,000,000 face amount.Estimated premiums of $5,000 for Male, 45, Preferred, Nontobacco, UL Flex II policy. Insurance premiums paid for 15 years. Not valid without accompanying insurance illustrations. See illustrations for important information.

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

Succession strategies
Business transfer

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

Common methods for transferring the business

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

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

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

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

What you need to know

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

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

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

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

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

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

Life insurance - Helps assure that funds are available to make required payments.

Multiple approaches - It is not uncommon for business owners to use a combination of approaches.

Succession strategies
Understanding entity discounts

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

How it works

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

		No entity discounting		With entity discounting
Business value		$8,000,000		$8,000,000
Hypothetical entity discount	x	0%	x	30%
Less discount	-	$0	-	-$2,400,000
Post-discount value	=	$8,000,000	=	$5,600,000
Less estate tax exemption	-	$5,490,000	-	$5,490,000
Taxable portion	=	$2,510,000	=	$110,000
Federal estate tax rate	x	40%	x	40%
Estate tax liability	=	$1,004,000	=	$44,000
Hypothetical difference				**$960,000**

For illustrative purposes only. This hypothetical example is not intended to predict specific values and is used to help explain how discounting works.

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

Succession strategies
lump sum payment

When a seller does not want to accept the risk of an installment sale, the seller may require the purchase price to be paid up front. If the buyer does not have the funds, the buyer may finance the purchase price from a third party lender. Many times sellers will require a lump sum payment for a portion of the purchase price and accept an installment note for amounts the buyer is not able to finance through traditional lenders.

How it works

Buyer makes a lump sum payment to the seller. The seller transfers the business interest to the buyer. The buyer may finance part of the purchase price through a third party lender. Life insurance is often used on the buyer to protect the the parties in the event of an untimely death.

	Installment note			Cost to buyer		Net to seller			
Year	Beginning-of-year note value	Interest & principal payment	End-of-year note value	Pre-tax annual cost	After-tax annual cost	Annual proceeds	Personal income taxes	Capital gains taxes	Net proceeds to seller
0	0	0	0	2,240,000	3,446,154	2,240,000	0	368,000	1,872,000
1	0	0	0	0	0	0	0	0	0
2	0	0	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0
7	0	0	0	0	0	0	0	0	0
8	0	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0	0

Assumptions

Business value	$8,000,000	Seller's income tax rate	35%
Ownership interest to be sold	40%	Seller's capital gains	20%
Value of ownership interest	$3,200,000	Seller's basis	$1,000,000
Less minority discounts	30%		
Sales price	$2,240,000		

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

Comments and considerations

- Consider the after-tax cost of buying the business in a lump sum.
- Consider whether the buyer has sufficient funds available and/or access to lenders to pay the full purchase price.

Succession strategies

Installment sale

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

How it works

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

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

Assumptions

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

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

Comments and considerations

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

Succession strategies

Interest only sale

An interest only sale is similar to a traditional amortized sale. However, interest only payments are made for a period of time with an ending balloon payment of principal. The parties may agree to extend the interest-only payments period but would need to use at least the current Applicable Federal Rate at the time the agreement is modified.

How it works

The buyer makes a down payment, then using an interest only note, the buyer pays the seller interest for a specified period of time. At the end of the period, the buyer makes a balloon payment to the seller. Life insurance is often purchased to insure both the buyer and seller, protecting the sale in the event of an untimely death.

	Installment note			Cost to buyer		Net to seller			
Year	Beginning-of-year note value	Interest & principal payment	End-of-year note value	Pre-tax annual cost	After-tax annual cost	Annual proceeds	Personal income taxes	Capital gains taxes	Net proceeds to seller
0	0	0	0	224,000	344,615	224,000	0	36,800	187,200
1	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
2	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
3	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
4	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
5	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
6	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
7	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
8	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
9	2,016,000	100,800	2,016,000	100,800	155,077	100,800	35,280	0	65,520
10	2,016,000	2,116,800	0	2,116,800	3,256,615	2,116,800	35,280	331,200	1,750,320

Assumptions

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

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

Comments and considerations

- Consider the after-tax cost of buying the business using and interest-only note if transferring the business to a family member.
- Consider protecting the sale with life insurance.

Succession strategies
Key person insurance

Oftentimes, the most valuable assets of a business are the key people who contribute most to its success. They generate revenue, handle major responsibilities and have a unique wealth of knowledge that seems irreplaceable. If their loss would create a financial burden that puts the future profitability of the business at risk, a key person insurance policy is a simple and efficient solution.

How it works

Your business is the owner and beneficiary of a life insurance policy for each key employee chosen, which can include business owners. If the unexpected does happen, the business receives cash, generally income tax-free, to help overcome the financial burden of the loss.

Comments and considerations

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

Succession strategies
Key person retention

Plans for select key employees

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

By offering a valuable benefit, these plans can help you recruit, retain and reward the key employees who contribute the most to the success of your business. These plans:

- Enhance your total benefits package by offering a financial reward.
- Encourage loyalty by helping to secure their financial futures.
- Incentivize key employees to grow the business
- Are subject to simplified government reporting and disclosure rules – or none at all.

Consideration for common nonqualified plans

Retaining top hat employees	Retaining non-top hat employees	Obtaining a current tax deduction for company	Obtaining a tax deferral for the key employee
Yes	Yes	Yes	Yes
Principal SERP Select	Principal Executive Bonus Plus with restrictive endorsement	Principal Executive Bonus Plus - Single bonus - Double bonus - Simulated deferral	Principal SERP Select
Principal Select Reward	Incentive Bonus Plan		Principal Select Reward
Principal Executive Bonus Plus with restrictive endorsement			Principal Executive Bonus Plus - Simulated deferral
Principal Excess Plan			Principal Excess Plan

Comments and considerations

- Discuss with your tax and legal counsel whether a key person retention plan can be beneficial to your business.

Retirement income

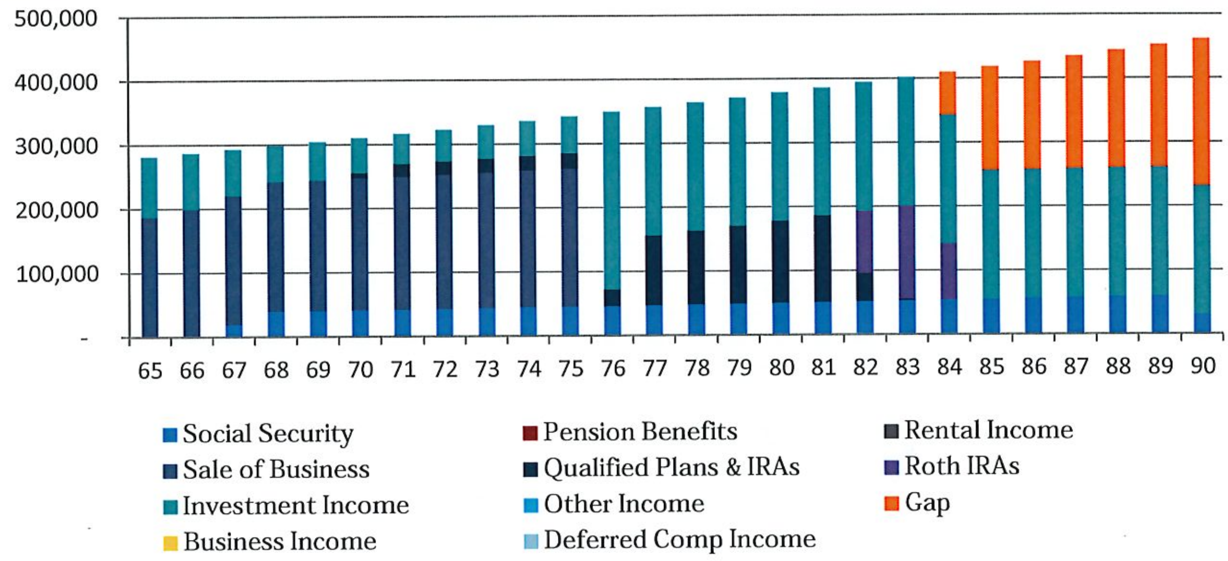
Retirement analysis

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

Assumptions

Current age	59	Qualified plans and taxable IRAs	$450,000
Spouse's age	58	Annual qualified plan contributions	$0
Retirement age	65	Roth IRA balance	$100,000
Mortality age	90	Annual Roth IRA contributions	$0
Desired annual income	$250,000	Investment Account Balance	$250,000
Annual Social Security income	$30,000	Annual investment contributions	$0
Age to begin Social Security	67	Deferred compensation income	$0
Spouse Social Security income	$30,000	Other income	$0
Age to begin Social Security	67	Pre-retirement rate of return	5.0%
Rental income	$0	Inflation rate	2.0%
Business income	$400,000	Federal and State income tax rate	35%

Your retirement gap, if you retire at age 65, is $377,322



Comments and considerations

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

Retirement income
Supplemental and retirement income

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

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

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

Annuities | Premiums in an annuity contract — either fixed or variable.

Advantages	Disadvantages
• Earnings accumulate tax deferred • No medical underwriting • Guaranteed death proceeds bypass probate process • Can provide a guaranteed income for life	• Surrender charges may apply[1] • Income in respect of decedent at death • 10% penalty on earnings for distributions prior to age 59½ • Distributions are "gain first" (taxable at ordinary income tax rates), unless annuitized

Life insurance | Premiums into a life insurance policy.

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

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

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

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

Comments and considerations

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

Retirement income
Chronic illness protection

You can protect your family from the hardships of a serious, long-term illness. The Chronic Illness Death Benefit Advance rider is a free[1], additional coverage option that allows you to access part of your life insurance policy's death benefit if you're diagnosed with a chronic illness. By accessing the income tax-free[2] funds early, you can:

- Pay for quality care
- Protect your retirement savings
- Help your family feel more financially secure
- Live your best life possible

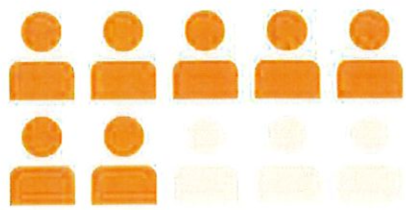
Put simply, a chronic illness means:

- Being unable to perform two of the six Activities of Daily Living[3] for at least 90 consecutive days, and your condition must be permanent; or
- Requiring substantial supervision by another person for at least 90 consecutive days to protect against threats to health and safety due to a permanent severe cognitive impairment.

Benefits of this rider

You can get what you need to help you through tough times. By accessing the policy death benefits early, you may be able to:

- Afford top-quality care
- Make necessary changes to your home to accommodate your needs
- Offset increased living expenses
- Pay assisted living or nursing home fees
- Help with medical expenses not covered by insurance
- Assist with family or professional caregiving costs
- And more



7 in **10** people age 65 and older will need chronic illness care later in life

Source: http://longtermcare.gov/the-basics/who-needs-care

About **80%** of older adults have one chronic disease; **68%** of Medicare beneficiaries have two or more.[1]

[1] Source: NCOA.org, Chronic Disease Self-Management Facts, October 2016

[1] See the policy rider for specific details. The maximum lifetime accelerated death benefit amount is the lesser of 75% of the Initial Eligible Amount or $1 million.

[2] Surrender charges and other policy charges may apply to distributions taken from the policy.

3 The six Activities of Daily Living include: bathing, dressing, toileting, eating, continence and transferring (from bed to wheelchair, or sitting to standing).

Comments and considerations

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

Legacy and estate planning
Wills and trusts

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

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

Medical power of attorney

You reported that you do not have a medical power of attorney.

A medical power of attorney names an "attorney-in-fact" to make medical decisions on your behalf upon physician certification that you are unable to do so. Your attorney-in-fact has a legal obligation to always act in your best medical interest. Therefore, no court-appointed guardian is necessary to make such decisions.

Financial power of attorney

You reported that you are unsure if you have a financial power of attorney.

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

Living will

You reported that you are unsure if you have a living will.

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

Will

You reported that you have a current will in place.

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

Key:

Do not have | Unsure | Have

Legacy and estate planning
Wills and trusts (continued)

Revocable trust

You reported that you do not have a revocable trust.

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

Family trust

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

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

Irrevocable life insurance trust

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

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

Distribution plans

You reported that you have a distribution plan.

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

Comments and considerations

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

Legacy and estate planning
Inheritance equalization

While the inheritance you leave each of your kids may not be identical and equal, it can still be fair and equitable, which helps keep peace in the family. You might feel like you are trying to divide the indivisible because the non-liquid business is your biggest asset. First, decide what legacy you want to leave, and what fair looks like (because only you can). Then you'll be able to assess the options and find a solution.

If you can't leave an inheritance you think is fair without risks to the future success of the business, life insurance can be a critical tool. It will allow you to keep the business intact while maintaining peace in the family, which is the ultimate goal.

First, determine the amount of business and non-business assets, and what fair distribution looks like to your family. Calculate the additional assets needed to achieve the distribution goal. Then purchase life insurance in the amount needed. Upon the owner's death, the business can go to one heir, and the non-business assets and life insurance benefit goes to the other. Review the current plan and proposed solution charts on the following summary, then consider adding life insurance as a solution to treat your heirs equitably, while keeping your assets intact.

Current plan

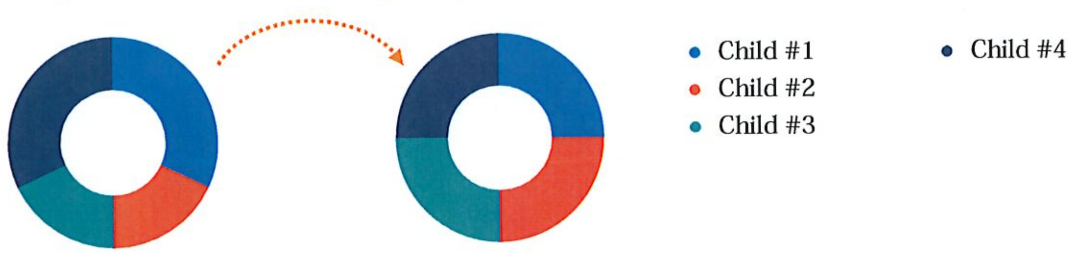
Type	Total	Child #1	Child #2	Child #3	Child #4		
Business assets	$8,000,000	50%	0%	0%	50%	0%	0%
Other assets	$4,500,000	0%	50%	50%	0%	0%	0%

Proposed plan

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

Current plan

Proposed plan



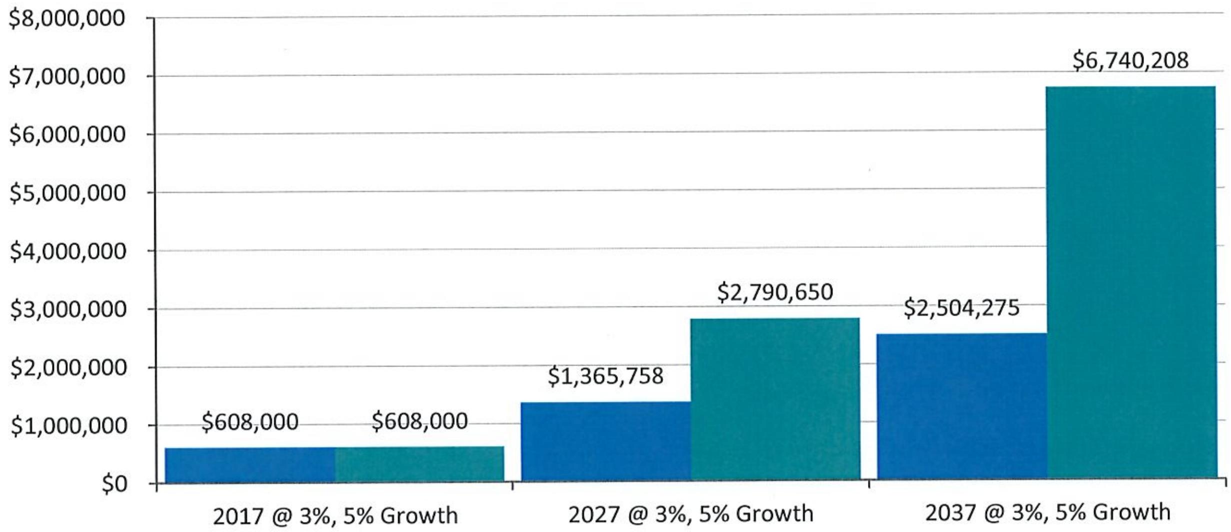
Comments and considerations

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

Legacy and estate planning

Estate tax protection

Death-related taxes can be devastating to a family business. The 2017 federal estate tax exclusion (which can be passed on without paying federal estate taxes) is $5,490,000 per person, and $10,980,000 for married couples (using portability). The chart below shows future values and estate projections for an estate worth $12,500,000 today.



		Passes in 2017	Passes in 2027	Passes in 2037
Growth rate 3%	Estimated fair market value	$12,500,000	$16,798,955	$22,576,390
	Projected estate tax	$608,000	$1,365,758	$2,504,275
Growth rate 5%	Estimated fair market value	$12,500,000	$20,361,183	$33,166,221
	Projected estate tax	$608,000	$2,790,650	$6,740,208

Comments and considerations

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

Legacy and estate planning
Gifting techniques

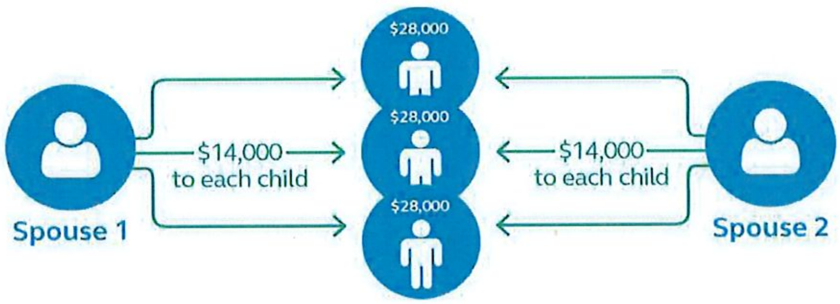
Gifting techniques can help you accomplish a number of potential estate planning goals:

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

In 2017, the annual exclusion gift amount is $14,000. This is the amount you can gift without paying federal gift taxes or filing a federal gift tax return. The $14,000 is per donee, per year. Therefore, married couples can gift a combined $28,000 per donee in 2017.

Example

A married couple with three children could gift $84,000 annually.



Your scenario

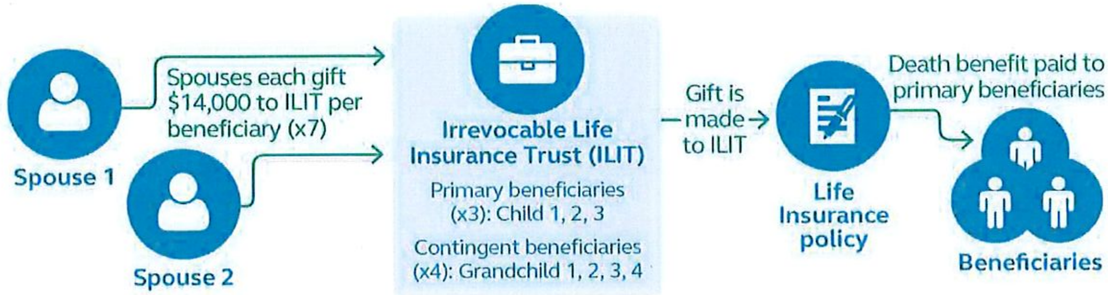
Number of donors		Your number of beneficiaries		2017 annual gift exclusion amount		Combined annual gift exclusions
2	x	3	x	$14,000	=	$84,000

Using this gifting method, you could possibly remove $84,000 worth of potentially taxable assets from your estate and transfer it to your children/heirs without paying any federal gift tax.

Legacy and estate planning

Gifting techniques (continued)

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



Hypothetical example

	Annual exclusion gifts				Gift to trust and hold as investment		Gift to trust and purchase life insurance		Difference
Year	Number of donors	Number of donees	Annual exclusion amount	Total annual gift	Annual investment	Trust assets after 5% growth	Annual life insurance premiums	Life insurance death benefit	Additional benefit to heirs
1	2	7	$14,000	$196,000	$196,000	$205,800	$196,000	$13,182,249	$12,976,449
5	2	7	$14,000	$196,000	$196,000	$1,083,024	$196,000	$13,182,249	$12,099,226
10	2	7	$14,000	$196,000	$196,000	$2,465,267	$196,000	$13,182,249	$10,716,982
15	2	7	$14,000	$196,000	$196,000	$4,229,396	$196,000	$13,182,249	$8,952,851
20	2	7	$14,000	$196,000	$196,000	$6,480,927	$196,000	$13,182,249	$6,701,322

This assumes purchase of $13,182,249 life insurance policy for $196,000 annual premiums. For Preferred Non-Tobacco, male age 68 and Preferred, Non-Tobacco, Female age 68, the death benefit is guaranteed until the youngest insured's age 100. Not valid without accompanying insurance illustration. Please see illustration for important information.

Comments and considerations

- Consider using your annual gift exclusions to gift business interests. As the annual gifts accumulate over time, a substantial portion of your business can be transferred from your taxable estate to your successors.
- Alternatively, consider using your annual gift exclusions to pay life insurance premiums for a policy owned by an ILIT. These income tax-free death benefits can be used towards estate debt reduction and/or other needs.

Your customized planning considerations

We are here to help you achieve your goals. We understand that some of your goals are more important to you than others so make sure to let us know which issues are your priorities so we can focus our attention and your resources there first.

Succession strategies

	Priority	Target date
Informal business valuation		
• Understand your business value and how this relates to your business succession plans.		
• Explore whether a complimentary informal business valuation from Principal is appropriate for you.		
Buy-sell arrangements		
• Consider establishing a buy-sell agreement with your successor.		
• Based on the information provided, discuss with local counsel whether a buy-sell agreement will help facilitate the succession of your business.		
Buy-sell funding		
• Consider fully funding the buy-sell agreement with life insurance.		
• Consult with your advisors about what type of insurance will best meet your needs.		
Entity discounting		
• You would like to transition the business using entity-discounting.		
• Please		
Key person protection		
• Identify the employees who are key to your business.		
• Consider obtaining key person insurance on your key employees.		
Key person retention		
• Discuss with your tax and legal counsel whether a key person retention plan can be beneficial to your business.		

Your customized planning considerations
(continued)

Retirement income

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

Your customized planning considerations
(continued)

Legacy and estate planning

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

Your goals, our purpose

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

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

We work with people like you every day and make it a priority to understand where you want to be and help you plan to get there. This means you'll get expertise and innovative ideas when you need them to make your financial progress possible. Our life insurance solutions have been protecting people for more than a century. And by working with a Top 20 provider of life insurance[1], you'll know you're in good company. From basic, affordable protection to more robust solutions for long-term needs, you'll find coverage to fit your situation.

Our leadership in delivering insurance protection solutions for individuals, employers and their key people runs deep. Our comprehensive product portfolio, paired with unique and flexible plan designs mean you get solutions tailored to your specific needs.

Work with a leader

- No. 1 provider of nonqualified deferred compensation plans.[1]
- No. 3 provider of individual disability income insurance.[2]
- No. 5 provider of group benefit insurance.[3]
- A leader in the business market and a Top 20 life insurance provider.[4]

[1] Based on total number of NQDC plans, PLANSPONSOR 2015 NQDC Buyer's Guide.

[2] Based on 2015 LIMRA data of annualized new sale premium for non-cancelable policies, February 2016.

[3] Based on 2015 LIMRA data on fully insured employer contracts in force, May 2016.

[4] Based on 2014 LIMRA data of annualized new sale premium (February 2015)

Appendix - Retirement income sources

Client age	Annual need	Soc Sec & pension	Rental income	Business income	Sale of the business	Qualified plans & IRAs	Invest-ment income	Deferred comp and other income	Gap
65	$281,541	$0	$0	$0	$187,200	$0	$94,341	$0	$0
66	$287,171	$0	$0	$0	$199,469	$0	$87,702	$0	$0
67	$292,915	$19,420	$0	$0	$200,958	$0	$72,537	$0	$0
68	$298,773	$39,617	$0	$0	$202,520	$0	$56,635	$0	$0
69	$304,749	$40,410	$0	$0	$204,161	$0	$60,178	$0	$0
70	$310,844	$41,218	$0	$0	$205,884	$8,115	$55,627	$0	$0
71	$317,060	$42,042	$0	$0	$207,693	$19,460	$47,865	$0	$0
72	$323,402	$42,883	$0	$0	$209,593	$20,806	$50,120	$0	$0
73	$329,870	$43,741	$0	$0	$211,587	$21,815	$52,727	$0	$0
74	$336,467	$44,616	$0	$0	$213,681	$22,855	$55,315	$0	$0
75	$343,196	$45,508	$0	$0	$215,880	$23,942	$57,866	$0	$0
76	$350,060	$46,418	$0	$0	$0	$25,078	$278,564	$0	$0
77	$357,062	$47,346	$0	$0	$0	$108,738	$200,977	$0	$0
78	$364,203	$48,293	$0	$0	$0	$114,932	$200,977	$0	$0
79	$371,487	$49,259	$0	$0	$0	$121,250	$200,977	$0	$0
80	$378,917	$50,244	$0	$0	$0	$127,695	$200,977	$0	$0
81	$386,495	$51,249	$0	$0	$0	$134,268	$200,977	$0	$0
82	$394,225	$52,274	$0	$0	$0	$140,973	$200,977	$0	$0
83	$402,109	$53,320	$0	$0	$0	$147,812	$200,977	$0	$0
84	$410,151	$54,386	$0	$0	$0	$87,408	$200,977	$0	$67,381
85	$418,355	$55,474	$0	$0	$0	$0	$200,977	$0	$161,903
86	$426,722	$56,583	$0	$0	$0	$0	$200,977	$0	$169,161
87	$435,256	$57,715	$0	$0	$0	$0	$200,977	$0	$176,564
88	$443,961	$58,869	$0	$0	$0	$0	$200,977	$0	$184,115
89	$452,840	$60,047	$0	$0	$0	$0	$200,977	$0	$191,817
90	$461,897	$30,624	$0	$0	$0	$0	$200,977	$0	$230,296

These numbers are based on inputs provided by the client and are estimates only. Actual amounts can vary and do not guarantee future results. Retirement income sources are calculated on an after-tax basis.

principal.com

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

All assets assume specific growth rates, calculated based on information from the client. These individual rates are used to project the possible growth of the business. These projections are made to estimate future business insurance needs.
Although the informal business valuation from Principal can provide a valuable starting point in helping you determine the value of your business, the valuation will not be a substitute for a formal valuation nor does it establish a value for tax purposes. A formal valuation should be constructed with the guidance of your legal and/or tax advisors.

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

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

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

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

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Principal National Life Insurance Company Rider Form: ICC14SN 92/SN 92
Principal Universal Life Provider Edge® (UL Provider Edge) (ICC SN97/SN 97, SF 960 NY) Principal Universal Life Flex 11® (UL Flex II) (SF 914/SN 77)
Principal National Life Insurance Company Policy Form: SN 77; Rider Forms: SN 7, SN 9, SN 10, SN 11, SN 25, SN 38, SN 49, SN 50,SN 54, ICC14 SN 92/SN 92 and ICC14 SN 93/SN 93 Principal Life Insurance Company Policy Form: SF 914; Rider Forms: SF 612, SF 618,SF 729, SF 794, SF 803, SF 804, SF 863, SF 892,SF 898, SF 915 and SF 916

Principal Universal Life Accumulation II® (UL Accumulation II) (SF 913/SN 76)
Principal National Life Insurance Company Policy Form: SN 76; Rider Forms: SN 7, SN 8,SN 9,SN 10, SN 11, SN 25,SN 38, SN 41, SN 49, SN 54,ICC14 SN 92/SN 92 and ICC14 SN 93/SN 93 Principal Life Insurance Company Policy Form: SF 913; Rider Forms: SF 612,SF 618,SF 729, SF 794, SF 803, SF 804,SF 863, SF 880,SF 892, SF 898, SF 915 and SF 916

Principal Indexed Universal Life Flex® (IUL Flex) (ICC13 SN/SN 85,SF 937)
Principal National Life Insurance Company Policy Form: ICC13 SN85/SN 85, Rider Forms: SN 10,SN 11, SN 25,SN 38, SN 49, SN 50,SN 54,ICC1 4 SN 92/SN 92, ICC14 SN 93/SN 93 and ICC14 SN 94/SN 94
Principal Life Insurance Company Policy Form: SF 937, Rider Forms: SF 612, SF 618, SF 794, SF 863, SF 892, SF 893, SF 898, SF 915,SF 916 and SF 938

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