

Business owner retirement analysis

How ready are you for retirement?

Presented to:

Valued Clients

Presented by:

Producer Name



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Your business and retirement

You've spent a lot of time and effort building a successful business. So, you may not have given much thought to retirement. Now, it's time to take steps to make sure you're building a solid foundation for retirement. Your business can play a key role.

Depending on the value of your business and the strength of your transition plan, your business can generate income during retirement, just like it's done through your working years. It all starts with some careful planning.


Reviewing this personalized report is an important next step.

Your business owner retirement analysis 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. From here, we'll work with you and your tax and legal advisors to develop solutions that work best for you. We'll look at three planning categories designed to help you realize both your short and long-term planning goals:



Buy-sell and succession strategies

Informal business valuation
Buy-sell planning
Buy-sell funding



Retirement income strategies

Retirement analysis
Supplemental income
Chronic illness protection



Business and income protection strategies

Key person protection
Business protection
Income protection

Your profile

You

Name	Date of birth	Number of remaining working years
John	07/12/1964	10
Mary	10/07/1965	11

Your children

Name	Date of birth	Spouse	Number of children	Notes
Child #1	01/01/1988	Spouse	3	
Child #2	01/01/1990	NA	0	
Child #3	01/01/1992	Spouse	2	
Child #4	01/01/1992	Spouse	2	

Your parents

Name	Date of birth	Living?	Number of children	Do they have an estate plan?
Mother	01/01/1940	Yes	3	Yes
Father	01/01/1940	Yes	3	Yes
Mother	01/01/1942	Yes	2	No
Father	01/01/1942	No	2	No

Summary information

Business name	Successor(s)	Entity type	Description
ABC Company	Child #1 and #4	S corp	Construction

Financial summary (continued)

Personal assets	Owner	Value	Annual contributions
Cash & equivalents	Joint	\$25,000	\$0
Investments	Joint	\$100,000	\$10,000
Annuities - you	John	\$0	\$0
Annuities - spouse	Mary	\$0	\$0
Retirement plans - you	John	\$200,000	\$20,000
Retirement plans - spouse	Mary	\$200,000	\$0
IRAs - you	John	\$0	\$0
IRAs - spouse	Mary	\$0	\$0
Roth IRAs - you	John	\$50,000	\$0
Roth IRAs - spouse	Mary	\$0	\$0
Other	Joint	\$0	\$0
	Subtotals	\$575,000	\$30,000
	Total		\$3,775,000

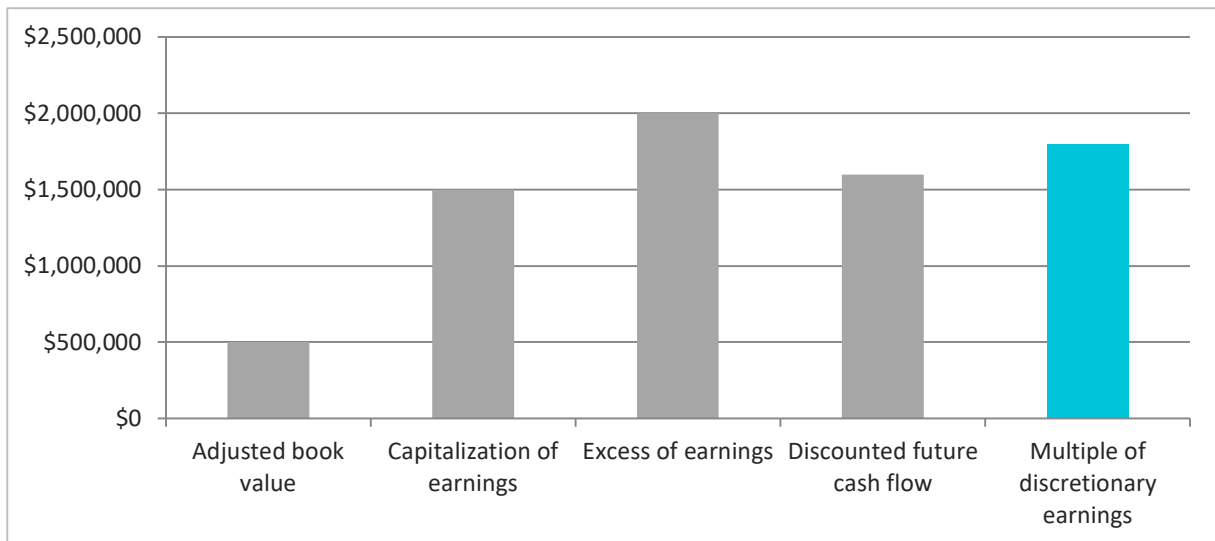
Income sources	Annual income	Age begins	Age ends
Wages (W-2, guaranteed payments)	\$100,000	55	64
Wages - spouse	\$75,000	55	64
Social Security - you	\$24,000	67	90
Social Security - spouse	\$18,000	67	90
Rental income	\$100,000	55	90
Business income (K-1, dividends)	\$300,000	55	64
Investment income	\$0	55	90
Pension income - you	\$0	65	90
Pension income - spouse	\$0	65	90
Deferred comp income - you	\$0	65	90
Deferred comp income - spouse	\$0	65	90
Other income	\$0	55	90

Life insurance	Insured	Face amount	Owner	Beneficiary
		\$0		
		\$0		
		\$0		
		\$0		

Disability insurance	Insured	Benefit amount	Type	Elimination period
		\$0		
		\$0		

Informal business valuation

Based on the details you provided, the following are estimated informal valuations for your business using five generally accepted methods of valuation. Your company profile suggests the highlighted value below may be most appropriate for your business.



Adjusted book value method Assets, with adjustments, less liabilities - generally represents the "liquidation" value	\$500,000
Capitalization of earnings method Amount of capital that would have to be invested at a specified rate to yield the current average net earnings of the business	\$1,500,000
Excess of earnings method A combination of the adjusted book value and capitalization of earnings methods	\$2,000,000
Discounted future cash flow method Projected future business earnings forecasted, then discounted using an appropriate rate	\$1,600,000
Multiple of discretionary earnings Earnings provided by goodwill, times a multiplier, adjusted book value is added to this number	\$1,800,000
Highlighted Value	\$1,800,000

Note: Please refer to the full Informal Business Valuation report for additional information on how this valuation was determined.

Informal business valuation

Valuing a business

It's important to know the current value of your business so you know how much it can contribute to your retirement income goal. The company value may be different depending on the buyer. For example, the value may differ between a third party, a co-owner or a family member.

There are different methods for determining 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, both must have a reasonable knowledge of all the relevant facts.

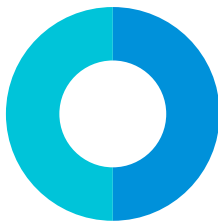
Here are some considerations when valuing a business¹:

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

¹ Per IRS Revenue Ruling 59-60

The informal valuation of your business

According to the information submitted, your business is estimated to have a value of \$1,800,000.



Owner	Ownership %	Value today
• John	50%	\$900,000
• Mary	50%	\$900,000
Totals	100%	\$1,800,000

Comments and considerations

- Understand the value of your business and how this relates to your business succession goals.



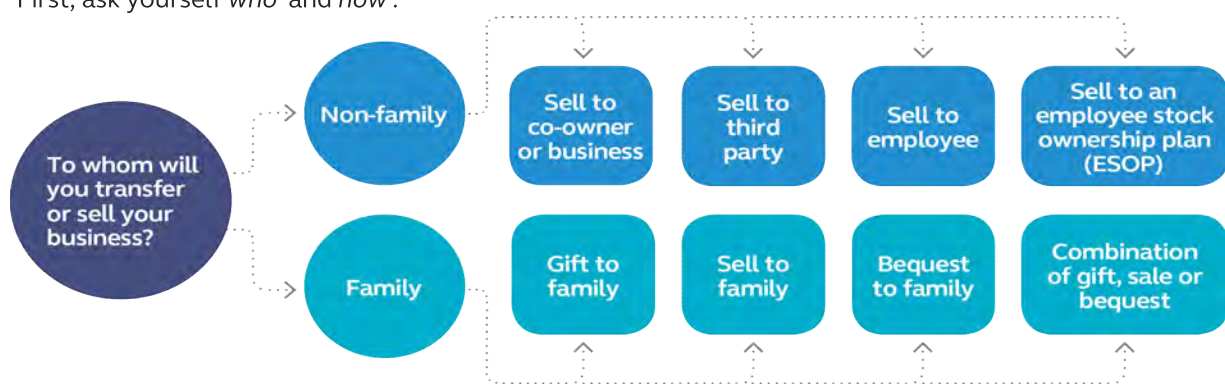
Buy-sell and succession strategies

Buy-sell planning

If you're like many business owners, you're planning on your business playing a key role in providing your retirement income. Perhaps you're thinking about selling it and taking a lump sum or regular installment payments. Or, maybe you intend to gift the business to a family member.

To protect yourself, your family and your business, it's important to determine exactly to whom, how and when you want to transition your business. Identifying the buyer and determining a purchase price is critical for retirement planning as well as protecting your family in the event of an unplanned exit from the business.

First, ask yourself *who* and *how*.



Then ask *when*. Make sure you consider both planned and unplanned exits from your business – such as retirement, dissolution, death, disability, divorce, and termination.

Based on the information you provided, we understand this is your business transfer goal:

- You intend to transfer your business in 10 years to a key employee using an installment note.
- You have protected your strategy with a buy-sell agreement funded with life insurance.



Buy-sell and succession strategies

Buy-sell agreement

Your decisions about to whom, how, and when you want to transition your business should be documented in a buy-sell agreement that aligns with your goals. A well-funded and current buy-sell agreement is an essential planning tool to help enhance the stability, manage known transitions, and protect the financial value of your business from unplanned events. We can help guide you through the process, starting with a complimentary review of any buy-sell agreement.

Help protect your business and your retirement

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 important to plan how your business transition will impact your retirement. Life and disability buy-out insurance should be considered to fund your buy-sell agreement.

We can help you design a properly funded buy-sell agreement that:

- Provides departing owners a market and price for an asset that might be hard to sell.
- Prevents an unqualified/undesirable individual from acquiring an interest in your business.
- Minimizes business disruptions at trigger events (e.g. death, divorce, or retirement).
- Offers assurances to employees, customers, suppliers, and creditors that the business will remain strong through owner transitions.
- When funded with insurance, provides both the financing and the mechanism to ensure that control of the business will remain with the current owners.



Buy-sell and succession strategies

Installment sale model

Oftentimes, family members, key employees, or successors 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.

Year	Installment note			Cost to buyer		Net to seller			
	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	500,000	769,231	500,000	0	71,429	428,571
1	1,250,000	161,881	1,150,619	161,881	249,047	161,881	21,875	14,197	125,808
2	1,150,619	161,881	1,046,270	161,881	249,047	161,881	20,136	14,907	126,838
3	1,046,270	161,881	936,702	161,881	249,047	161,881	18,310	15,652	127,919
4	936,702	161,881	821,657	161,881	249,047	161,881	16,392	16,435	129,053
5	821,657	161,881	700,859	161,881	249,047	161,881	14,379	17,257	130,245
6	700,859	161,881	574,021	161,881	249,047	161,881	12,265	18,120	131,496
7	574,021	161,881	440,841	161,881	249,047	161,881	10,045	19,026	132,810
8	440,841	161,881	301,003	161,881	249,047	161,881	7,715	19,977	134,189
9	301,003	161,881	154,172	161,881	249,047	161,881	5,268	20,976	135,637
10	154,172	161,881	0	161,881	249,047	161,881	2,698	22,025	137,158

Assumptions

Business value	\$2,500,000	Seller's income tax rate	35%
Ownership interest to be sold	100%	Seller's capital gains rate	20%
Value of ownership interest	\$2,500,000	Seller's basis	\$500,000
Less minority discounts	30%	Buyer's income tax rate	35%
Sales price	\$1,750,000	Note term (years)	10
Down payment	\$500,000	Note interest rate*	5%
Note value	\$1,250,000		

* 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
- Consider protecting the sale with life insurance.



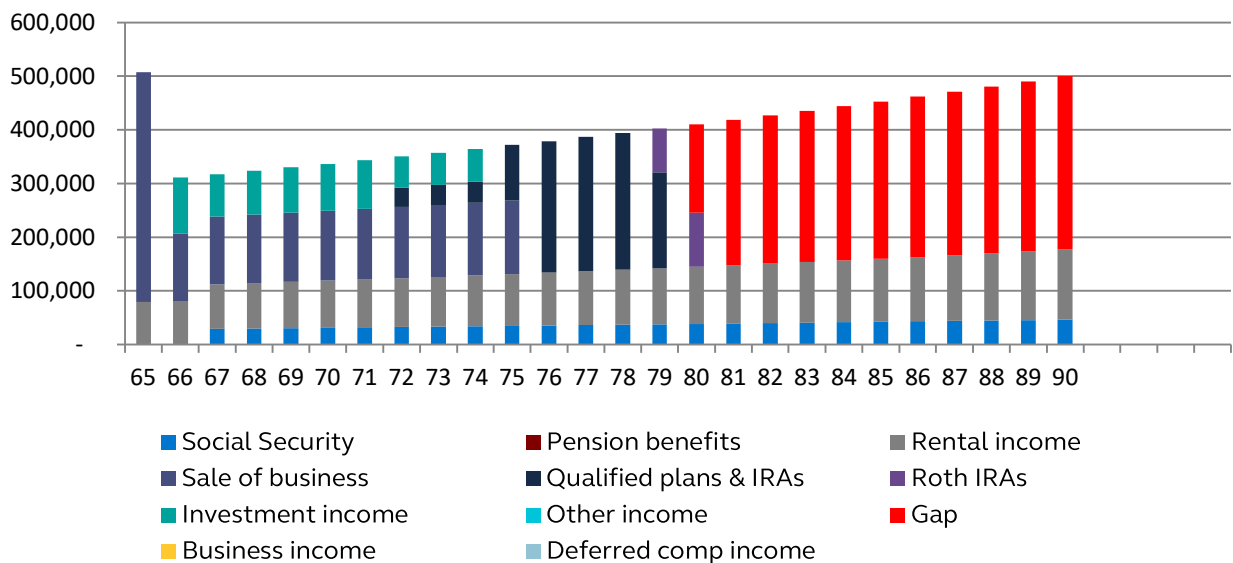
Retirement income

Let's look at your retirement income potential with the proceeds from the sale of your business along with your other savings. Based on the information you provided, we've put together the following analysis¹:

Assumptions

Current age	55	Qualified plans and taxable IRAs	\$400,000
Spouse's age	55	Annual qualified plan contributions	\$20,000
Retirement age	65	Roth IRA balance	\$50,000
Mortality age	90	Annual Roth IRA contributions	\$0
Desired annual income	\$250,000	Investment account balance	\$100,000
Annual Social Security income	\$24,000	Annual investment contributions	\$10,000
Age to begin Social Security	67	Deferred compensation income	\$0
Spouse Social Security income	\$18,000	Other income	\$0
Age to begin Social Security	67	Pre-retirement rate of return	6.0%
Rental income	\$100,000	Inflation rate	2.0%
Business income	\$300,000	Federal and State income tax rate	35%

Your retirement gap at age 65 is \$1,115,488



¹ Refer to the appendix for additional detail.

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 retirement plan

Here are your primary options to cover any gap between what you have and what you'll need.

Work longer

This isn't an ideal option, but one to consider, nonetheless.

Increase the market value of your business

Consider activities that can help make your business worth more to cover the \$1,115,488 gap (net of capital gains) . . . such as reigning in discretionary expenditures.

Save more

Implementing a nonqualified supplemental retirement plan may be a tax-efficient way to create additional retirement income. Contributing approximately \$81,681 annually to an appropriate plan may help you meet your goals.

Bridge the gap with a supplemental retirement plan

Now that we've identified that there's a gap between what you have in place for retirement income and what you'll likely need, let's look at a possible solution.

A nonqualified supplemental retirement plan can be set up through your business to provide a potentially tax-advantaged way to supplement other retirement assets you may have.

How it works

- You select an amount to contribute on an after-tax basis.
- Contributions are used to fund a personally-owned asset that finances the plan. And company cash flow can be used to accomplish this.
- At retirement, you can access accumulated values in the plan to supplement your income.

Get the plan that's right for you

Your customized plan will be designed based on your personal, business, and plan objectives. And the design will determine specific benefits available. We'll help you sort through all the details and assist you in designing and implementing a plan that meets your specific needs. We'll consider:

- The structure of your business.
- Additional participants (employees or other owners) you may want to include in the plan.
- The effect the plan may have on your business transition strategy.
- The tax impact to you and the business during both accumulation and distribution phases.
- Plan financing preferences.



Retirement income

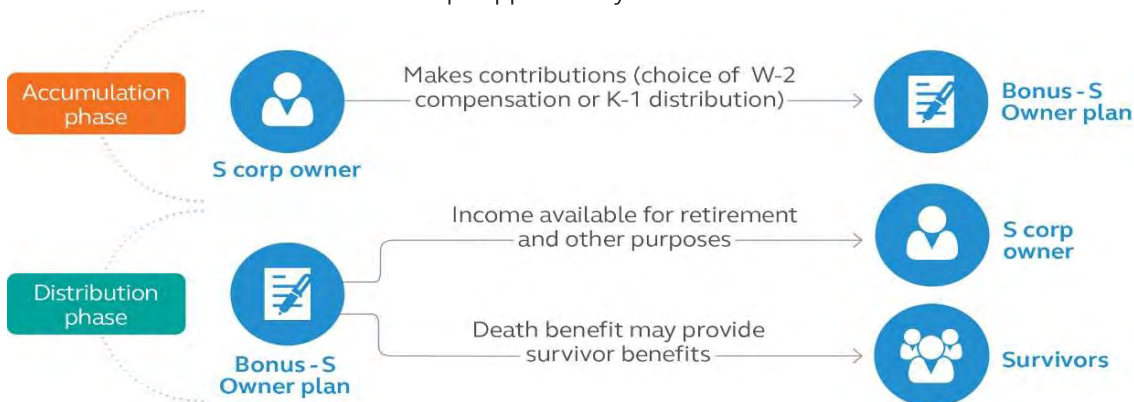
Principal[®] Bonus - S Owner

Based on our understanding of your objectives and preferences, we're recommending a Principal Bonus - S Owner plan to address your supplemental retirement income needs.

This bonus plan can help fill your retirement income gap by providing tax leverage like a Roth IRA without the contribution limits and restrictions on compensation that apply to qualified plans. The tax advantages are provided by the life insurance used to finance the plan, rather than being based on a tax code provision.

How it works

You select an amount to contribute from W-2 compensation or K-1 distributions¹ - and your dollars are used to finance the personally owned asset - like life insurance. At retirement, you may access the values in the financial asset to help supplement your retirement income.



There are many advantages to this plan for you, just as there are some things to consider:

Save more. While qualified plans and Roth IRAs offer tax benefits, they have limits on compensation and contributions that don't apply to this bonus plan.¹

Choose from contribution options. As an S corporation owner, you can choose to take income as W-2 compensation or a K-1 distribution allowing some payroll tax leverage.

Pay out distributions properly. If there's more than one owner, and K-1 distributions are used, distributions need to be in proportion to ownership.

Pay income tax now. Whether profits are distributed or retained for business expansion, you and any other owners are taxed on the profits of the business.²

Need to be healthy. You must be able to qualify for life insurance if you choose to use it for financing the plan.

Choose alternate financing options. If you or another owner is unable to qualify for life insurance, other options for financing the plan are available. But these options will have different tax implications regarding accumulation and distribution.

¹ Contributions must meet reasonable compensation regulations.

² S Corporation owners report their share of business profits on their personal tax returns. Depending on your type of business and other personal income, you might be entitled to a deduction under IRC Section 199A, of up to 20% of your passthrough income as a result of the Tax Cuts and Jobs Act.



Retirement income Chronic illness protection

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

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



Someone turning age 65 today has almost a **70%** chance of needing some type of **long-term care services** and supports in their remaining years.¹

¹ LongTermCare.gov, as of February 2020



About **80%** of **older adults** have one chronic disease.²

² NCOA Healthy Aging Fact Sheet, July 10, 2018



Nearly **70%** of **Medicare beneficiaries** have two or more chronic diseases.²

Comments and considerations

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



Business and income protection strategies

Help protect your business, key employees, and lifestyle

As a business owner, you've probably had to deal with things you weren't expecting. With so much of your retirement income hinging on your business, it only makes sense to protect both you and your business from the unexpected.

Help ensure your biggest asset is protected

High performing employees are one of the biggest assets of a company. What impact would the loss of one have on your business? Our recent Business Owner study shows that only 50% of owners have a business protection plan in place¹, leaving those without one exposed to risk.

Key person insurance can help. It's a simple, yet effective way to ensure your business has the necessary funds to deal with the loss of a key employee through death or disability. Using cash-value life insurance (owned by the company) to fund a key person plan can also provide other benefits, including:

- Establishing a sinking fund for a down payment for a purchase occurring at retirement.
- Retaining and rewarding key employees, thus helping to protect the value of your company as you transition into retirement.

What if you became too sick or hurt to work?

How would you pay the utilities, lease/rent or employees' salaries? Would you have to spend your hard-earned savings or your retirement assets to make ends meet?

Unexpected events don't have to threaten your business, your current lifestyle or your retirement security. Individual disability insurance solutions are available to help you throughout the period of your unexpected disability:

- **Individual disability income insurance.** Provides a monthly benefit that works like a paycheck to help you pay your personal bills and maintain your lifestyle.
- **Disability retirement protection.** Allows you to continue saving for retirement by investing benefits into an irrevocable trust.
- **Overhead expense insurance.** Reimburses you for fixed business expenses.
- **Business loan protection.** Covers the cost of business-related loans when attached as a rider on overhead expense insurance.

¹ The 2021 Principal Business Owner Insights survey is based on 1,011 online interviews conducted in January 2021 by Dynata.

Your customized planning considerations

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



Buy-sell and succession strategies

Informal business valuation

- Understand your business value and how this relates to your business succession plans.

Priority	Target date

Buy-sell planning

- Document your transition plans and fully fund your agreement with life and disability insurance.
- Explore whether a complimentary buy-sell agreement review from Principal is appropriate for you.



Retirement income

Business owner retirement analysis

- Take full advantage of your qualified retirement plan (e.g. 401(k)) by maximizing your contributions.
- Put in place a nonqualified supplemental retirement plan for you and your key employees.
- Diversify your portfolio with a mix of investments including mutual funds, stocks, and bonds.
- Purchase an annuity to provide an income stream you can't outlive.
- Provide financial security for your family and tax-advantaged supplemental retirement income potential by purchasing cash-value life insurance.
- Review the impact your retirement plans will have on the legacy you intend to leave to your heirs.

Priority	Target date

Chronic illness protection

- Consider purchasing a life insurance policy which provides chronic illness protection.

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Your customized planning considerations

(continued)



Business income and protection strategies

Target date

Priority

Key person insurance

- Purchase insurance on all owners and key employees important to the success of the business.

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Disability insurance

- Purchase overhead expense insurance and business loan protection coverage to protect your business.
- Protect your income and retirement by purchasing individual disability income insurance and disability retirement protection.

Your goals, our purpose

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

We help 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 insurance¹, 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 innovative and flexible plan designs mean you get solutions tailored to your specific needs.

Work with a leader

- A member of the Fortune 500[®], we have \$701 billion in assets under management¹ 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.²
- No. 2 provider of non-cancelable individual disability income insurance.³
- No. 1 provider of nonqualified deferred compensation plans.⁴

¹ As of June 30, 2020

² Our ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to policyholders and are not evaluations directed toward the protection of investors or reflect any ratings actions or notices relating to the US life insurance sector generally. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security, including our common stock. Ratings are subject to revision or withdrawal at any time by the assigning agency, and each rating should be evaluated independently of any other rating.

³ LIMRA annualized new sales premium, February 2020.

⁴ Based on total number of Section 409A plans, PLANSPONSOR Recordkeeping Survey, July 2020.

Appendix: retirement income sources



Client Age	Annual Need	Soc Sec & Pensions	Rental income	Business income	Sale of Business	Qual Plans & IRAs	Invest Accounts	Def Comp & Other	Gap
65	304,749	-	79,235	-	428,571	-	-	-	-
66	310,844	-	80,819	-	125,808	-	104,216	-	-
67	317,060	29,505	82,436	-	126,838	-	78,282	-	-
68	323,402	30,095	84,084	-	127,919	-	81,304	-	-
69	329,870	30,697	85,766	-	129,053	-	84,353	-	-
70	336,467	31,311	87,481	-	130,245	-	87,430	-	-
71	343,196	31,937	89,231	-	131,496	-	90,532	-	-
72	350,060	32,576	91,016	-	132,810	71,152	58,083	-	-
73	357,062	33,227	92,836	-	134,189	74,407	59,605	-	-
74	364,203	33,892	94,693	-	135,637	78,285	60,595	-	-
75	371,487	34,570	96,587	-	137,158	143,816	-	-	-
76	378,917	35,261	98,518	-	-	284,635	-	-	-
77	386,495	35,966	100,489	-	-	280,936	-	-	-
78	394,225	36,686	102,498	-	-	275,987	-	-	-
79	402,109	37,419	104,548	-	-	269,305	-	-	-
80	410,151	38,168	106,639	-	-	100,625	-	-	164,720
81	418,355	38,931	108,772	-	-	-	-	-	270,651
82	426,722	39,710	110,948	-	-	-	-	-	276,064
83	435,256	40,504	113,167	-	-	-	-	-	281,585
84	443,961	41,314	115,430	-	-	-	-	-	287,217
85	452,840	42,140	117,739	-	-	-	-	-	292,961
86	461,897	42,983	120,093	-	-	-	-	-	298,821
87	471,135	43,843	122,495	-	-	-	-	-	304,797
88	480,558	44,720	124,945	-	-	-	-	-	310,893
89	490,169	45,614	127,444	-	-	-	-	-	317,111
90	499,972	46,526	129,993	-	-	-	-	-	323,453
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-

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



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