

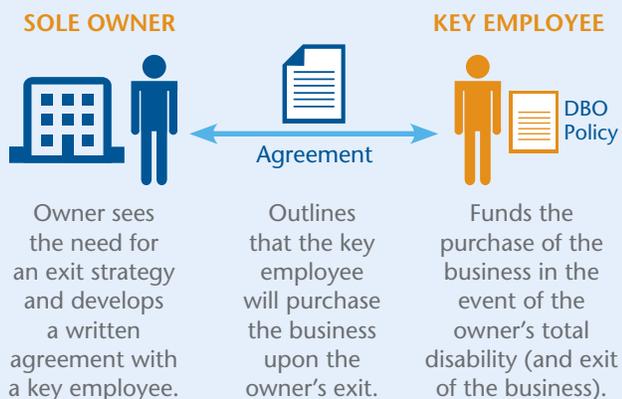
Market Profile

One-Way Buy-Out

OVERVIEW

Principal Life Insurance Company is the first insurance carrier to offer a disability buy-sell option for one business owner, called a **One-Way Buy-Out**. With this concept, a key employee can purchase Disability Buy-Out (DBO) insurance¹ to fund a buy-sell agreement between him/herself and the owner of the business. If the owner becomes permanently disabled, the key employee uses policy benefits to buy the business.

One-Way Buy-Out



Sales
Idea

When talking with a business owner about the One-Way Buy-Out concept, use it as an opportunity to also discuss the need for Key Person Replacement¹ coverage.

Did you know?

- **Business and income protection are the top priorities** for business owners, yet most owners don't have disability coverage.²
- **59%** of business owners **don't have written business continuation plans**, yet 82% are somewhat or very confident about their exit strategy.²

ONE-WAY BUY-OUT GUIDELINES

- **DBO Product:** HH794¹
- **Issue Ages:** 18 to 55
- **Maximum Issue Limit:** \$1 million
- **Financial Documentation Required:**
 - Prior two years of federal corporate tax returns
 - Current year-to-date profit and loss and balance sheets
 - Complimentary informal business valuation by Principal Life's Business Owner Executive Solutions (BOES) team.
- **BOES Review of:**
 - Buy-sell agreement (cross purchase only) or
 - Purchase or sale agreement
- **Buyer Guidelines:**
 - Relationship of key employee to owner – cannot be a spouse or linear family member (e.g., father, son)
 - Buyer must be listed in the agreement prior to underwriting

For each DBO case, ownership structure, agreement documentation and buy-out objectives are carefully reviewed. Cases with large age differences between the owner and key employee may not be insurable.

TARGET MARKETS



Many U.S. businesses have only one owner. They span a range of industries — from construction to retail to professional services. Consider targeting:

- Professional service-related companies, such as architecture, healthcare systems, law, dentistry, engineering, accounting and technology firms
- Profitable, growing businesses with gross revenues of \$500,000 or more

PROSPECTING TIPS

- Get involved in your local community by joining business and neighborhood associations, volunteering and/or joining the local Chamber of Commerce.
- Watch your local newspaper or television news for stories about successful area businesses/owners.
- Use LinkedIn to determine if you have common connections to prospects and then ask for referrals.

CLIENT DISCUSSION TIPS

Ask clients these questions:

- As a sole owner with a valued key employee, how would you expect your business to continue if you became too sick or hurt to work?
- Are you prepared to let a spouse or relative step into the business if you become disabled?
- Are you prepared to find a buyer for your business while dealing with a disability?

DISABILITY BUY-OUT INSURANCE ADVANTAGES

Principal Life DBO insurance:

- Prevents the sole owner from having to find an individual to purchase the business while totally disabled
- Provides the key employee with the funding to purchase the business or the necessary down payment for a loan
- Allows a smooth transition of ownership
- Benefits are tax-free³ (premiums are not deductible)

BUY-SELL AGREEMENT BASICS



Buy-sell agreements come in many forms and should be written to cover a variety of triggering events, such as death, disability, divorce, bankruptcy and retirement. In the event of a disability, the buy-sell agreement protects:

- The disabled business owner, by obligating the identified purchaser to buy out the owner's interest
- The remaining purchaser, by providing the opportunity and funding to purchase the disabled owner's interest

There are two common structures for buy-sell agreements – cross purchase and entity purchase. The One-Way Buy-Out concept uses a structure similar to a cross purchase agreement.

FOR MORE INFORMATION

Contact your local representative or visit principal.com/DBO

¹ Not approved in all states. Go to www.principal.com/distateapprovals for details.

² 2015 Business Owner Market Study, conducted by Harris Poll for the Principal Financial Group®.

³ If premiums are paid with after-tax dollars.



WE'LL GIVE YOU AN EDGE®

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