

THE PRINCIPAL FINANCIAL GROUP®

# Agribusiness Solutions Planning Report

BUSINESS ORGANIZATIONS | SUCCESSION STRATEGIES | ESTATE PLANNING | RETIREMENT INCOME

PRESENTED TO

Husband and Wife

PRESENTED BY

Valued Producer



WE'LL GIVE YOU AN EDGE®

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# Introduction

## Your legacy

Whether you farm row crops, raise livestock, run a dairy, own an orchard or some other form of agribusiness, the questions remain the same:

- How will you protect your legacy while providing for your family?
- What does this agribusiness look like now and what will it look like when you are gone?
- How do you protect your assets while you are still alive, reward your successor's efforts and still be fair to your other heirs?
- What is the agribusiness transition to the next generation going to look like?
- How do you pass it to the next generation cost efficiently?

## Getting started

Often, the most difficult part of taking on a new project is simply getting started. At the Principal Financial Group®, we help make it more simple. Based on the information you provided, we developed this custom Agribusiness Solutions Planning Report. This is a starting point as we work with you and your tax and legal advisors to develop solutions that work best for you. Below is the five-step method we follow:



## Agribusiness solutions from The Principal®

Our Agribusiness Solutions platform provides comprehensive resources for both your personal and agribusiness-related financial needs. Solutions that may be addressed in your planning report are:

BUSINESS ORGANIZATIONS	SUCCESSION STRATEGIES	ESTATE PLANNING	RETIREMENT INCOME
Entity Comparison	Buy-Sell Arrangements	Wills & Trusts	Retirement Analysis
Liability Protection	Succession Plan Funding	Inheritance Equalization	Supplemental Income
Discounting Techniques	Key Person Protection	Estate Taxes	Chronic Illness Protection
	Key Person Retention	Giftting Techniques	

## Your Profile

Client Names	Date of Birth	Remaining Working Years
Husband	01/01/1956	6
Wife	01/01/1958	8

Children's Names	Date of Birth	Married?	Number of Children
Son #1	01/01/1990	Yes	3
Son #2	01/01/1992	Yes	0
Son #3	01/01/1994	Yes	2

Parents' Names	Date of Birth	Health	Do They Have an Estate Plan?	Number of Children
Dad	01/01/1930	Deceased	Yes	
Mom	01/01/1936	Good	Yes	3
Dad	01/01/1930	Deceased	Yes	
Mom	01/01/1936	In Nursing Home	Yes	1

Agribusiness Name	Successor(s)	Entity Type	Primary Asset(s)
Family Farms	Son #1	LLC	Land & Equipment

# Your Goals

## Plan for your transition with a succession strategy

If you are like most agribusiness owners, you have given hours of thought to how, when and to whom you will transfer your operation. Too often, your everyday business gets in the way of long-term planning. Someday, you will leave your agribusiness, whether predetermined or by an unplanned event.

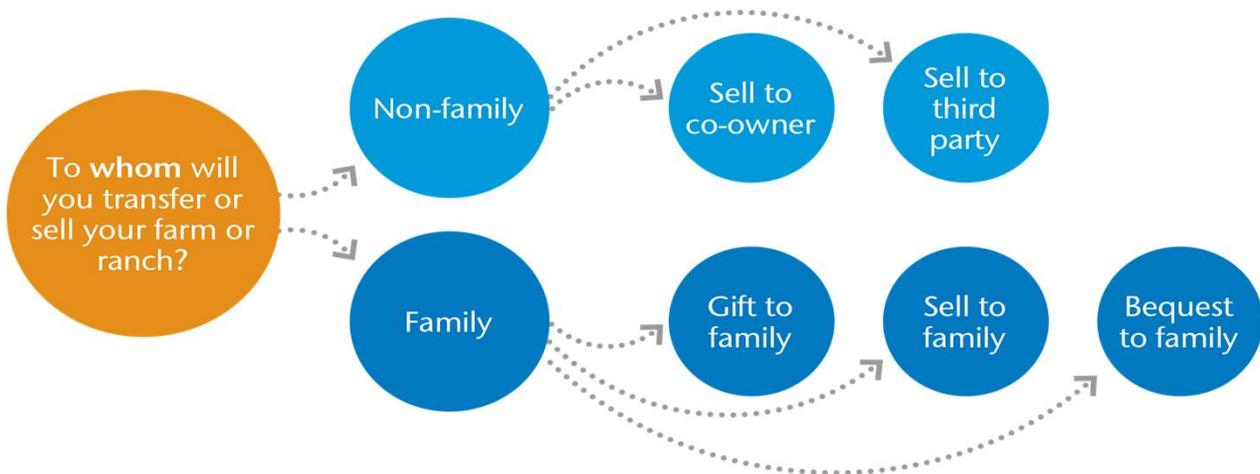
It is important to make plans to exit your agribusiness on your terms - no matter what the circumstances are. This planning can help protect you and your family under all contingencies: retirement, death, disability, personal bankruptcy or even a divorce.

### Key items to consider:

**WHO** – To whom will you sell or transfer the agribusiness?

**TIMING** – When do you want to transition out of the operation?

**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 agribusiness. 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 agribusiness 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 leave the entire agribusiness, the bulk of your estate, to one heir. This could lead to disharmony or litigation if you have other heirs. Review the Inheritance Equalization page to compare potential asset distribution and funding scenarios.

### Estate Planning

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

### 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.

# Financial Summary

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

Real Estate	Owner	Value	Liabilities
Residence	Joint	\$250,000	\$0
Land	Joint	\$12,000,000	\$0
Buildings			
Rental Property			
Other			
<b>Subtotals</b>		<b>\$12,250,000</b>	<b>\$0</b>

Agribusiness	Owner	Value	Liabilities
Equipment	Joint	\$1,000,000	\$0
Market Livestock			
Breeding Livestock			
Harvested Crops			
Growing Crops			
Accounts Receivable			
Other			
<b>Subtotals</b>		<b>\$1,000,000</b>	<b>\$0</b>

Other Assets	Owner	Value	Liabilities
Personal Property			
Vehicles	Joint	\$50,000	\$0
Collectibles			
Co-Op			
Future Inheritances			
Other			
<b>Subtotals</b>		<b>\$50,000</b>	<b>\$0</b>

## Financial Summary (continued)

Personal Assets	Owner	Value	Annual Contributions
Cash & Equivalents	Joint	\$100,000	\$0
Investments	Joint	\$200,000	\$0
Annuities - You	Husband		
Annuities - Spouse	Wife		
Retirement Plans - You	Husband	\$200,000	\$0
Retirement Plans - Spouse	Wife	\$200,000	\$0
IRAs - You	Husband	\$100,000	\$0
IRAs - Spouse	Wife	\$50,000	\$0
Roth IRAs - You	Husband	\$50,000	
Roth IRAs - Spouse	Wife	\$50,000	
Other			
<b>Subtotals</b>		<b>\$950,000</b>	<b>\$0</b>

<b>NET WORTH*</b>	<b>14,250,000</b>
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Income Sources	Annual Income	Age to Begin	Age to End
Wages - You	\$75,000	59	65
Wages - Spouse	\$50,000	57	65
Social Security - You	\$30,000	67	90
Social Security - Spouse	\$20,000	67	90
Rental Income	\$0	59	90
Agribusiness Income	\$100,000	59	65
Investment Income	\$0	59	90
Pension Income - You	\$0	65	90
Pension income - Spouse	\$0	65	90
Other Income	\$0	59	90

Life Insurance	Insured	Face Amount	Owner	Beneficiary
Principal Term	Husband	\$1,000,000	Husband	Wife

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 Princor Financial Services Corp. may not be covered by SIPC. Refer to the financial statements you receive from your financial services provider(s) for information regarding SIPC membership.

## What potential issues should I consider about my agribusiness operation now and after I'm gone?

Some issues that should be addressed, both now and for the future, include: liability protection, transferring fractional interests, management control, allocation of earnings and taxation. The business entity type implemented can play a key role in answering the following questions:

- Does my business entity type protect personal assets from business liabilities?
- How does my business entity type affect my income taxes?
- Does my business entity type ease ownership transition through shares/units?
- Would entity discounting techniques benefit me?

### Entity type comparison:

Entity Type:	Sole Proprietorship	General Partnership	Family Limited Partnership	S Corporation	C Corporation	Limited Liability Company (LLC)
Maximum Number of Owners	1	Unlimited	Unlimited	Maximum 100	Unlimited	Varies*
Liability	Unlimited Personal	Unlimited Personal	Unlimited for General Partners	Limited to Business Assets	Limited to Business Assets	Limited to Business Assets
Control	Sole Owner Controls	General Partners Control	General Partners Control	Voting Shareholders Control	Voting Shareholders Control	Managing Members Control
Allocation of Profits	All to Sole Owner	Allocated by Agreement	Allocated by Agreement	Pro Rata to Shareholders	Taxed to Corporation	Varies*
Units to Transfer	None	Partnership Interests	Limited Partnership Interests	Shares	Shares	Membership Units
Income Taxation	Taxed to Individual	Passed Through to Partners	Passed Through to Partners	Passed Through to Shareholders	Double Taxation	Varies*

\* Limited Liability Companies can elect to be taxed as Partnerships, S corporations or C corporations. Single member LLCs who have elected partnership will be taxed as a sole proprietorship. The attributes of an LLC will depend on how it has elected to be taxed.

### Comments and considerations:

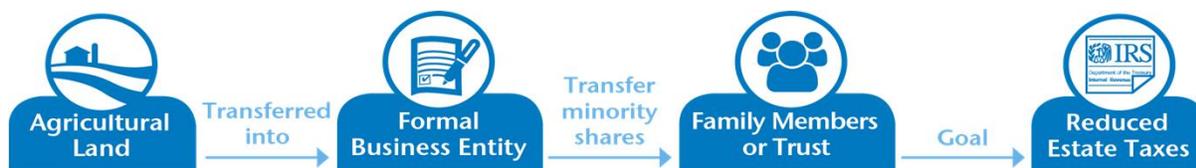
- *You have indicated that transitioning the agribusiness to the family is important.*
- *You currently have a business entity for your agribusiness.*
- *A business entity will help with the transition process.*
- *The benefits include potential liability protection, management control, ability to transfer fractional interests and additional flexibility to allocate profits.*
- *Disadvantages include additional recordkeeping and business tax returns to maintain.*
- *The business entity must be operated as a separate business.*
- *Consult with your tax and legal advisors about reviewing your existing business entity.*

Farm and ranch 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 asset(s) in question. This can also impact the owners' federal estate tax liability.

Another common way to to achieve the same goal is by employing an entity discounting strategy.

### How it works

If an appreciated asset (such as land) is not already inside a formal entity, the land or other assets can be transferred into a formal business entity (e.g. family limited partnership or limited liability company). Then, business interests can be gifted among family members to create minority owners. This may result in the minority ownership interests being 'discounted' in value, due to lack of control and voting rights.



	No Entity Discounting	With Entity Discounting
Land Value:	\$ 12,000,000	\$ 12,000,000
Hypothetical Entity Discount:	0%	30%
Less Discount:	\$0	(\$3,600,000)
Post-Discount Value:	\$ 12,000,000	\$ 8,400,000
Less Estate Tax Exemption:	(\$5,450,000)	(\$5,450,000)
Taxable Portion:	\$ 6,550,000	\$ 2,950,000
Federal Estate Tax Rate:	40%	40%
Estate Tax Liability:	\$ 2,620,000	\$ 1,180,000
<b>Hypothetical Difference:</b>		<b>\$ 1,440,000</b>

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

### Comments and considerations:

- You indicated that you would like to transition the agribusiness to the family using minority interest 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).

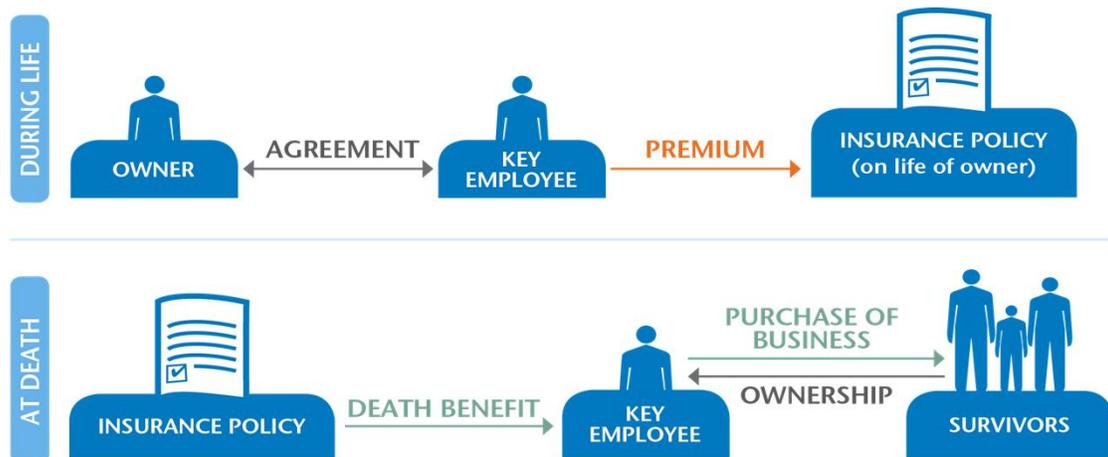
As an owner of an agribusiness, you need contingency plans for future events that could impact your ability to meet your long-term financial goals. A funded buy-sell agreement is an essential planning tool to help enhance the stability of your agribusiness, manage known transitions and protect its value against unknown events.

A properly funded buy-sell agreement can:

- Provide clearly defined triggering events.
- Minimize business disruptions during a transition event.
- Ensure funding is consistent with plan design.
- Clearly designate a defined purchase price, and clear, realistic payment terms.

### How a one-way buy-sell works

The successor agrees to purchase the agribusiness at an agreed upon value and purchases a life insurance policy on the current owner. Upon a triggering event, the insurance proceeds fund the purchase of the agribusiness from the owner's estate. Proceeds from the sale may also assist the estate with survivor needs, inheritance equalization, estate taxes, and paying off any debt.



### Common triggering events

- Death
- Disability\*
- Retirement

### Comments and considerations:

- Consider establishing a buy-sell agreement with your successor.
- Based on the information provided, discuss with local counsel whether a one-way buy-sell is best suited for your needs.
- Please see the Buy-Sell Funding page to examine funding options.

\* Insurance might not be available

## 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.

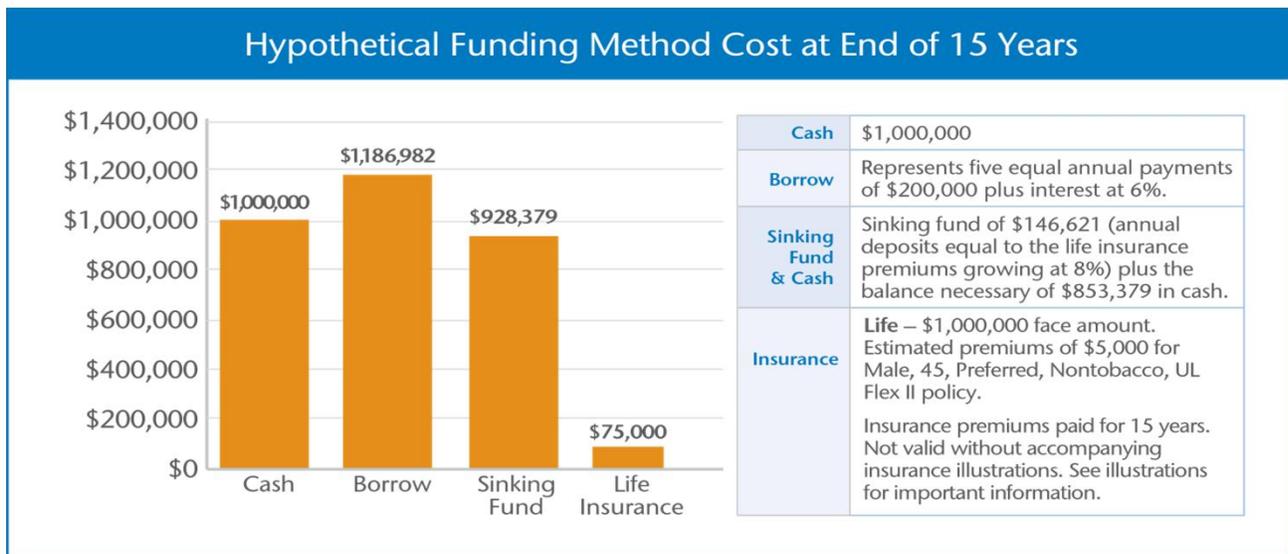
**Borrowing** - Involves future unknown factors such as credit availability and cost of borrowing. Any borrowed funds must be repaid with interest.

**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 operation.

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.



### Comments and considerations:

- *If the operation 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.*

Oftentimes, family members or key employees don't have the resources to purchase the operation 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 used on the seller and buyer to protect the sale in the event of an untimely death.

### Proposed installment note:

Year	Installment Note			Cost to Buyer		Net to Seller			
	Beginning Note Value	Principal & Interest Payment	Ending Note Value	Annual Payment	After-Tax Cost to Buyer	Annual Proceeds	Personal Income Taxes	Capital Gains Taxes	Net Proceeds to Seller
0	-	-	-	240,000	369,231	240,000	-	(89,143)	329,143
1	1,860,000	240,879	1,712,121	240,879	370,582	240,879	32,550	(54,926)	263,255
2	1,712,121	240,879	1,556,849	240,879	370,582	240,879	29,962	(57,673)	268,589
3	1,556,849	240,879	1,393,813	240,879	370,582	240,879	27,245	(60,556)	274,190
4	1,393,813	240,879	1,222,625	240,879	370,582	240,879	24,392	(63,584)	280,071
5	1,222,625	240,879	1,042,878	240,879	370,582	240,879	21,396	(66,763)	286,246
6	1,042,878	240,879	854,143	240,879	370,582	240,879	18,250	(70,101)	292,730
7	854,143	240,879	655,972	240,879	370,582	240,879	14,948	(73,606)	299,538
8	655,972	240,879	447,892	240,879	370,582	240,879	11,480	(77,287)	306,686
9	447,892	240,879	229,408	240,879	370,582	240,879	7,838	(81,151)	314,192
10	229,408	240,879	0	240,879	370,582	240,879	4,015	(85,209)	322,073

### Assumptions:

Farm or Ranch Value	\$12,000,000	Note Term	10.00
Ownership Interest to be Sold	25%	Note Interest Rate	5%
Value of Ownership Interest	\$3,000,000	Seller's Income Tax Rate	35%
Less Minority Discounts	- 30%	Seller's Capital Gains Tax Rate	20%
Sales Price	\$2,100,000	Seller's Basis	\$6,000,000
Down Payment	\$240,000		
Note Value	\$1,860,000		

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 operation on an installment basis if transferring the operation to a family member.
- Consider the potential tax benefits of gifting to heirs.
- Consider protecting the sale with life insurance.

## Key person insurance makes good business sense

Most of the success or failure of a farm or ranch hinges on the experience and talents of key people. Whether it is a family member, business partner, or important employee, the sudden loss of any person key to the operation may create havoc and call into question the future profitability of the entire operation.

### The reality

Private construction had the highest count of fatal injuries in 2014, but the private agriculture, forestry, fishing and hunting sector had the highest fatal work injury rate.<sup>1</sup>

### How it works

Ensure the farm or ranch remains secure in the face of the unexpected loss of a key person by purchasing life insurance on the lives of key employees. The farm or ranch will be the owner and beneficiary of the insurance policy(ies).



### Comments and considerations:

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

<sup>1</sup> Data for 2014 are preliminary. Note: Fatal injury rates exclude workers under the age of 16, volunteers, and resident military. The number of fatal work injuries represents total published fatal injuries before the exclusions. For additional information on the fatal work injury rate methodology, please see <http://www.bls.gov/iif/oshnotice10.htm>. Source: U.S. Bureau of Labor Statistics, Current Population Survey, Census of Fatal Occupational Injuries, 2015.

### Plans for select key employees

An effective tool to help recruit, reward and retain employees is a nonqualified supplemental retirement plan. 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 employees to meet the needs of both the agribusiness and the plan participants they select.

By offering a valuable benefit, these plans can help you recruit, retain and reward the key employees that contribute the most to the success of your agribusiness. 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 agribusiness.
- Are subject to simplified government reporting and disclosure rules -- or none at all.

CONSIDERATIONS FOR COMMON NONQUALIFIED PLANS				
Business Considerations	Principal Executive Bonus Plus <sup>SM</sup>	Principal SERP Select <sup>SM</sup>	Principal <sup>®</sup> Select Reward Plan	Executive Nonqualified Excess Plan <sup>SM</sup>
Immediate Tax Deduction	Yes	No	No	No
Golden Handcuffs	Limited	Yes	Yes	Yes
Cost Recovery	No	Yes	Yes	Yes
Administrative Services	Yes	Yes	Yes	Yes
Employer Contributions	Yes	Yes	Yes	Yes
Employee Contributions	Yes	No	No	Yes

#### Comments and considerations:

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

Estate planning is equally important for both married and single people to distribute your personal and agribusiness 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****Do Not Have**

**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****Unsure**

**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****Unsure**

**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****Have**

**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.

## Revocable Trust

Do Not Have

**You reported that you do not have a revocable trust.**

A revocable living 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 bypass 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 bypass judicial probate end up there anyway. Confirm with your legal and tax advisors that your trust has been properly funded.

## Family Trust

Unsure

**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 a device used to minimize the estate taxes payable by a married couple. This arrangement is one of the strategies that can help both spouses fully utilize their estate tax exemption. 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

Do Not Have

**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

Have

**You reported that you have a distribution plan.**

You reported that your distribution plan leaves all of your assets to your spouse if then living; then all of your assets to your children in differing percentages. 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 an agribusiness, 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.*

Estate planning strategies help ensure that your estate will be distributed the way you choose. If you are like many owners of an agribusiness, a majority of your assets may not be liquid. You may also employ one or more of your children. You would like to treat all of your children equitably at your death, regardless of their involvement. But how do you provide for the non-active heirs, while keeping your agribusiness intact for the active heirs to carry on what you have built? A solution may be to create inheritance equalization using life insurance.

### How it works

Your agribusiness assets may comprise a majority of your estate. You'll want to determine the amount needed to equalize the business and non-business assets you want to leave to your heirs.

One possible solution is to purchase life insurance in the amount needed. Upon your death, the heir(s) involved in the agribusiness gain control of the business assets, while the non-business heir(s) receive an equivalent inheritance from the life insurance death benefit proceeds and other assets. 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.

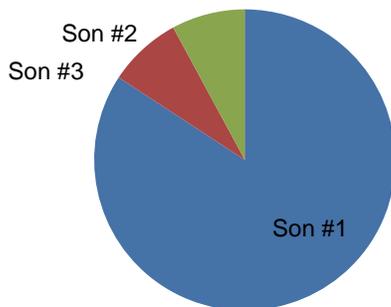
### Current plan

Type	Total	Son #1	Son #2	Son #3			
Ag Assets	\$12,000,000	100%	0%	0%	0%	0%	0%
Other Assets	\$2,250,000	0%	50%	50%	0%	0%	0%

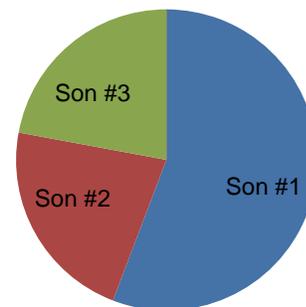
### Proposed plan

Type	Total	Son #1	Son #2	Son #3			
Ag Assets	\$12,000,000	100%	0%	0%	0%	0%	0%
Other Assets	\$2,250,000	0%	50%	50%	0%	0%	0%
<b>New Insurance</b>	<b>\$7,250,000</b>	<b>0%</b>	<b>50%</b>	<b>50%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Current plan



Proposed plan

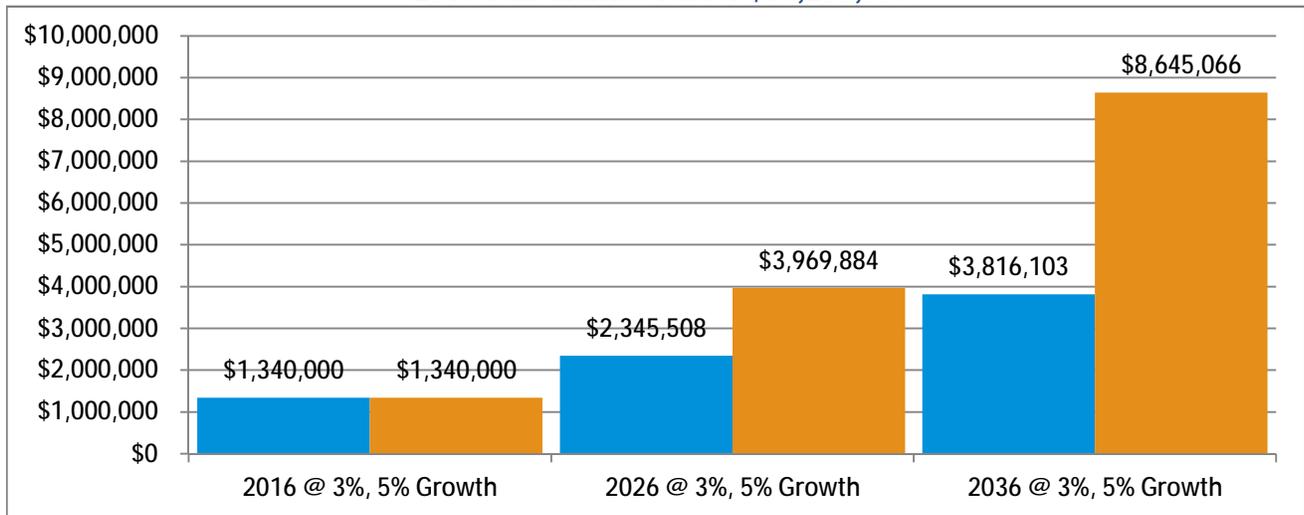


### Comments and considerations:

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

Death-related taxes can be devastating to a family agriculture business. The 2016 federal estate tax exclusion (which can be passed on without paying federal estate taxes) is \$5,450,000 per person, and \$10,900,000 for married couples (using portability) to combine each married person's respective federal estate tax exclusion. The chart below shows future values and estate projections for an estate worth \$14,250,000 today.

**2016 Fair Market Value: \$14,250,000**



		Passes in 2016	Passes in 2026	Passes in 2036
<b>Growth Rate is 3%</b>	Estimated Fair Market Value	\$14,250,000	\$19,150,808	\$25,737,085
	Projected Estate Tax	\$1,340,000	\$2,345,508	\$3,816,103
<b>Growth Rate is 5%</b>	Estimated Fair Market Value	\$14,250,000	\$23,211,748	\$37,809,492
	Projected Estate Tax	\$1,340,000	\$3,969,884	\$8,645,066

### Comments and Considerations:

- Based on the information you provided, your estate may 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 agribusiness assets with a private sale or public auction.
- Consider techniques to minimize potential estate and inheritance taxes.
- Consider a permanent life insurance policy to help pay any federal estate taxes.

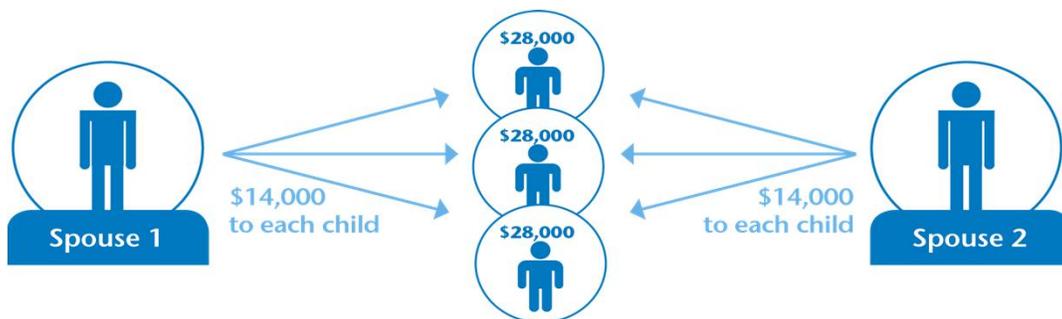
Giftng techniques can help you accomplish a number of potential estate planning goals:

- 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 2016 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 2016.

### Example:

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

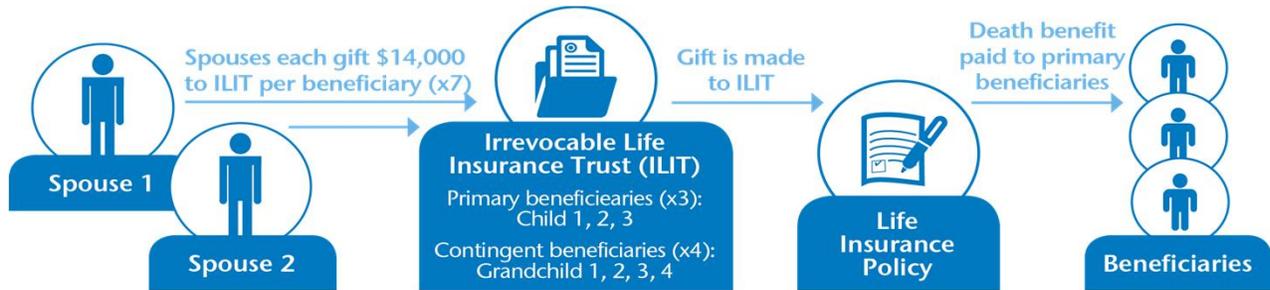


### Your Scenario:

Number of Donors		Your Number of Beneficiaries		2016 Annual Gift Exclusion Amount		Combined Annual Gift Exclusions
2	X	3	X	\$14,000	=	\$84,000

Using this giftng 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.

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



**Hypothetical Example:**

Year	Annual Exclusion Gifts			Total Annual Gift	Gift to Trust and Hold as Investment		Gift to Trust and Purchase Life Insurance		Difference Additional Benefit to Heirs
	# of Donors	# of Donees	Annual Exclusion Amount		Annual Investment	Trust Assets After 5% Growth	Annual Life Insurance Premiums	Life Insurance Death Benefit	
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	\$ 12,099,225
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	\$ 4,229,398	\$ 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.

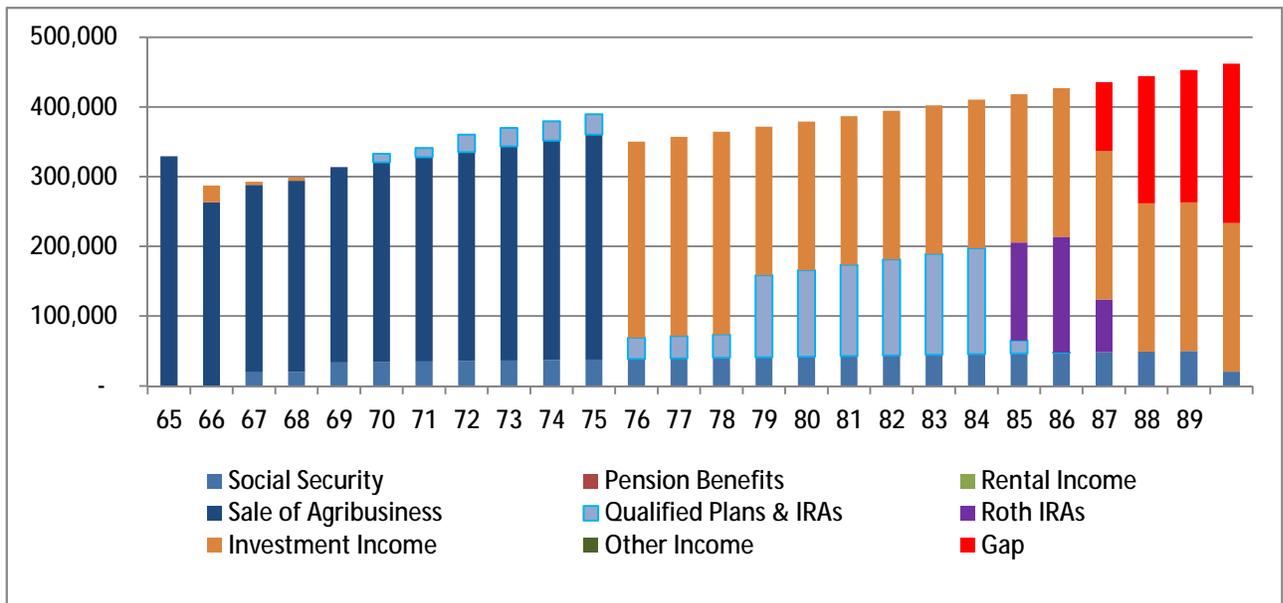
**Comments and considerations:**

- Consider using your annual gift exclusions to gift agribusiness interests. As the annual gifts accumulate over time, a substantial portion of your agribusiness 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 taxes, inheritance equalization, debt reduction and/or other needs.

Let's look at your retirement income based on the sale of your agribusiness and other savings. Based on the information you provided, we have put together the following analysis.

### Assumptions:

Current Age	59	Qualified Plans & Taxable IRAs	\$550,000
Spouse's Age	57	Annual Qualified Plan Contributions	\$0
Retirement Age	65	Roth IRA Balance	\$100,000
Mortality Age	90	Annual Roth IRA Contributions	\$0
Desired Monthly Income	\$250,000	Investment Account Balance	\$200,000
Monthly Social Security Income	\$30,000	Annual Investment Contributions	\$0
Age to Begin Social Security	67	Other Income	\$0
Spouse Social Security Income	\$20,000	Pre-Retirement Rate of Return	5.0%
Age to Begin Social Security	67	Inflation Rate	2%
Rental Income	\$ -	Federal and State Income Tax Rate	35%
Agribusiness Income	\$100,000		



**Your retirement gap at age 65 is \$208,886**

### 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.

Your farm/ranch will likely play a key role in providing your income source during retirement, whether through rental income or your continued labor. 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
<ul style="list-style-type: none"> <li>• Long-term gains taxed at capital gains rates</li> <li>• Flexible contributions</li> <li>• Many investment options</li> </ul>	<ul style="list-style-type: none"> <li>• Earnings taxable to owner, annually</li> <li>• No insurance death benefit</li> <li>• Distributions in excess of basis are taxable</li> </ul>

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

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> <li>• Earnings accumulate tax deferred</li> <li>• No medical underwriting</li> <li>• Guaranteed death proceeds bypass probate process</li> <li>• Can provide a guaranteed income for life</li> </ul>	<ul style="list-style-type: none"> <li>• Surrender charges may apply<sup>1</sup></li> <li>• Income in respect of decedent at death</li> <li>• 10% penalty on earnings for distributions prior to age 59½</li> <li>• Distributions are “gain first” (taxable at ordinary income tax rates)</li> </ul>

**Life Insurance** | Premiums into a life insurance policy.

ADVANTAGES	DISADVANTAGES
<ul style="list-style-type: none"> <li>• Earnings accumulate tax deferred</li> <li>• Tax-advantaged distributions such as loans and partial surrenders (subject to policy limitations/charges)<sup>2</sup></li> <li>• Tax-free life insurance proceeds may bypass probate process and protect dependents</li> </ul>	<ul style="list-style-type: none"> <li>• Mortality cost of insurance</li> <li>• Underwriting process</li> <li>• Owner may not be insurable</li> <li>• Policy fees and expenses</li> <li>• Impact of loans and withdrawals<sup>2</sup></li> </ul>

**Before investing, carefully consider the investment option objectives, risks, charges, and expenses. Contact a financial professional or visit [principal.com](http://principal.com) for a prospectus or, if available, a summary prospectus containing this and other information. Please read it carefully before investing.**

*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.*

<sup>1</sup> If the contract has surrender charges, withdrawals beyond the free withdrawal provision may have an additional charge.

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

### Comments and considerations:

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

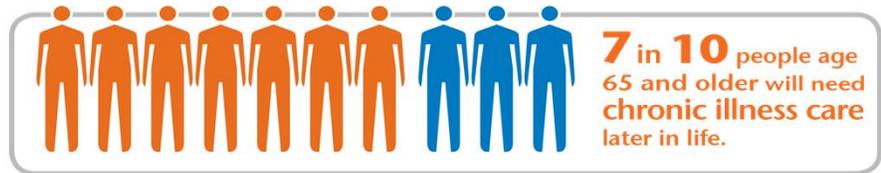
## Life insurance benefits to ease hardship due to a chronic illness

Without a protection plan in place, the costs associated with a long-term medical condition could cause financial hardship for your family and disrupt your overall financial plan.

Take an advance from your policy's death benefit for a chronic illness using the **Chronic Illness Death Benefit Advance rider**. The money may be used for living expenses, paying off debt or simply to enjoy life. This no-cost rider<sup>1</sup> is automatically added to your policy if you qualify. The death benefit will be reduced when the rider is exercised.

About **80%** of older adults have at least **one chronic condition**.

Centers for Disease Control and Prevention. *Healthy Aging at a Glance 2011*. Atlanta, GA: Centers for Disease Control and Prevention, US Dept of Health and Human Services; 2011.



LongTermCare.gov, Who Needs Care 2015

## How do I qualify?<sup>2</sup>

**1** You must be unable to perform two of the six Activities of Daily Living for a period of 90 consecutive days, and your condition must be permanent.

**ACTIVITIES OF DAILY LIVING**

- Bathing
- Dressing
- Toileting
- Contingence
- Eating
- Transferring

**2** Or, you require substantial supervision for a period of at least 90 consecutive days for protection from threats to health and safety due to a permanent severe cognitive impairment.

## **BENEFITS** of the Chronic Illness Death Benefit Advance rider

- ▶ Once certified by a physician as chronically ill, there is no waiting period before you can request an accelerated benefit.
- ▶ You only pay for the chronic illness rider if you need it. There are no up-front costs.
- ▶ The benefit payment can be used for whatever you want. You are not required to use it as reimbursement for medical expenses.
- ▶ The benefit is based on values at the time of need; not a pre-selected benefit amount at issue.

### 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.*

<sup>1</sup> 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.

<sup>2</sup> The Chronic Illness Death Benefit Advance rider is available on Principal Universal Life Provider Edge<sup>SM</sup>, Principal Universal Life Flex<sup>SM</sup>. Principal Universal Life Accumulation II<sup>SM</sup> and Principal Indexed Universal.

# 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.

	Priority	Target Date
<b>Business Organizations</b>		
<b>Understanding Entity Types</b> <ul style="list-style-type: none"> <li>Consult with your tax and legal advisors about establishing a formal business entity for your agribusiness</li> </ul>		
<b>Entity Discounting</b> <ul style="list-style-type: none"> <li>You would like to transition the agribusiness using entity-discounting.</li> <li>Please consult with your tax and legal advisors about appraising the value of any gifts and determining the appropriate discounts (if any).</li> </ul>		
<b>Succession Strategies</b>		
<b>Buy-Sell Arrangements</b> <ul style="list-style-type: none"> <li>Consider establishing a buy-sell agreement with your successor.</li> <li>Based on the information provided, discuss with local counsel whether a buy-sell will help facilitate the succession of your agribusiness.</li> </ul>		
<b>Buy-Sell Funding</b> <ul style="list-style-type: none"> <li>Consider fully funding the buy-sell with life insurance.</li> <li>Consult with your advisors about what type of insurance will best meet your needs.</li> </ul>		
<b>Key Person Protection</b> <ul style="list-style-type: none"> <li>Identify the employees who are key to your operation.</li> <li>Consider obtaining key person insurance on your key employees.</li> </ul>		
<b>Key Person Retention</b> <ul style="list-style-type: none"> <li>Discuss with your tax and legal counsel whether a key person retention plan can be beneficial to your agribusiness.</li> </ul>		

# Your Customized Planning Considerations (continued)

	Priority	Target Date
<b>Estate Planning</b>		
<p><b>Wills and Trusts</b></p> <ul style="list-style-type: none"> <li>• Consult with local counsel about reviewing/updating your estate plans.</li> </ul>		
<p><b>Inheritance Equalization</b></p> <ul style="list-style-type: none"> <li>• You indicated that being "fair" is more important than being "equal".</li> <li>• Consider purchasing a life insurance policy to create fair inheritances among your heirs.</li> </ul>		
<p><b>Estate Tax Protection</b></p> <ul style="list-style-type: none"> <li>• Continue to monitor your estate over time. As your estate grows, so will your potential estate tax liability.</li> <li>• Consider techniques to minimize potential estate and inheritance taxes.</li> <li>• Consider a permanent life insurance policy to help pay any federal estate taxes your estate may incur.</li> </ul>		
<p><b>Gifting Techniques</b></p> <ul style="list-style-type: none"> <li>• Consider using your annual gift exclusions to gift agribusiness interests.</li> <li>• 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.</li> </ul>		

# Your Customized Planning Considerations (continued)

	Priority	Target Date
<b>Retirement Income</b>		
<p><b>Retirement Analysis</b></p> <ul style="list-style-type: none"> <li>Based on the information provided, you may not have enough savings and income-producing assets to support your retirement income goals.</li> <li>Consider qualified retirement plan and nonqualified plan options.</li> <li>Consider additional savings and strategies for supplementing your income.</li> </ul>		
<p><b>Supplemental Retirement Income</b></p> <ul style="list-style-type: none"> <li>Consider whether investments, annuities, and/or a life insurance policy is best suited for supplementing your retirement income needs.</li> </ul>		
<p><b>Chronic Illness Protection</b></p> <ul style="list-style-type: none"> <li>You indicated that you are concerned about a chronic illness. Consider purchasing a life insurance policy which provides protection for a chronic illness.</li> </ul>		

# Why The Principal?

When you work with The Principal, you can trust that our business solution leadership can help elevate your benefits. The Principal is a diversified family of financial services companies, presenting you with a depth of resources and understanding to help the financial futures of both you and your employees.



**DISTINGUISHED BRAND** – We're a global investment management leader, serving more than 19 million customers in 18 countries.

- ▶ A *FORTUNE 500*<sup>®</sup> company offering insurance, retirement solutions and investment products through our diverse family of financial services companies.
- ▶ No. 17 provider of life insurance<sup>1</sup>, dedicated to helping individuals and businesses protect their assets.



**MARKET-BASED SOLUTIONS** – Lean on a leader in the individual, business and nonqualified deferred compensation markets.

- ▶ Platforms designed to help determine appropriate solutions based on specific needs.
- ▶ Administrative services support throughout the lifetime of your programs.



**COMPETITIVE UNDERWRITING** – Our Principal UnderRight<sup>SM</sup> platform provides underwriting that is *Fast. Easy. Just Right.*

- ▶ Programs to help simplify the underwriting process and get you the best available offer.



**DIVERSE PRODUCTS** – In an industry filled with numerous life insurance products, experience what makes ours different.

- ▶ Top-tier, value-driven products designed to help meet a variety of needs in the individual, estate planning, business planning and executive benefits markets.



**OUTSTANDING PEOPLE** – In a business based on relationships, people make the difference. We collaborate for your success.

- ▶ Our consultative approach involves listening to you first and then working together to achieve better outcomes.

<sup>1</sup> Based on 2013 LIMRA data on total life new sales premium in the U.S., April 2014.

## Appendix: Retirement Income Sources

Client Age	Annual Need	Soc. Sec. & Pensions	Rental Income	Ag Income	Sale of Ag Assets	Qual Plans & IRAs	Investment Income	Other Income	Gap
65	281,541	-	-	-	329,143	-	-	-	0
66	287,171	-	-	-	263,255	-	23,917	-	0
67	292,915	19,420	-	-	268,589	-	4,906	-	0
68	298,773	19,809	-	-	274,190	-	4,775	-	0
69	304,749	33,675	-	-	280,071	-	-	-	0
70	310,844	34,348	-	-	286,246	12,172	-	-	0
71	317,060	35,035	-	-	292,730	13,215	-	-	0
72	323,402	35,736	-	-	299,538	25,047	-	-	0
73	329,870	36,451	-	-	306,686	26,667	-	-	0
74	336,467	37,180	-	-	314,192	27,955	-	-	0
75	343,196	37,923	-	-	322,073	29,286	-	-	0
76	350,060	38,682	-	-	-	30,677	280,702	-	0
77	357,062	39,455	-	-	-	32,047	285,559	-	0
78	364,203	40,244	-	-	-	33,558	290,400	-	0
79	371,487	41,049	-	-	-	117,626	212,811	-	0
80	378,917	41,870	-	-	-	124,235	212,811	-	0
81	386,495	42,708	-	-	-	130,976	212,811	-	0
82	394,225	43,562	-	-	-	137,852	212,811	-	0
83	402,109	44,433	-	-	-	144,865	212,811	-	0
84	410,151	45,322	-	-	-	152,018	212,811	-	0
85	418,355	46,228	-	-	-	159,315	212,811	-	0
86	426,722	47,153	-	-	-	166,758	212,811	-	0
87	435,256	48,096	-	-	-	76,033	212,811	-	98,316
88	443,961	49,058	-	-	-	-	212,811	-	182,092
89	452,840	50,039	-	-	-	-	212,811	-	189,990
90	461,897	20,416	-	-	-	-	212,811	-	228,670
					-				

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.



WE'LL GIVE YOU AN EDGE®

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0001, [www.principal.com](http://www.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 The 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 The 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<sup>SM</sup> (UL Provider Edge) (ICC SN97/SN 97, SF 960 NY)

Principal Universal Life Flex II<sup>SM</sup> (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<sup>SM</sup> (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<sup>SM</sup> (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, ICC14 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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