

Business Owner Market Study

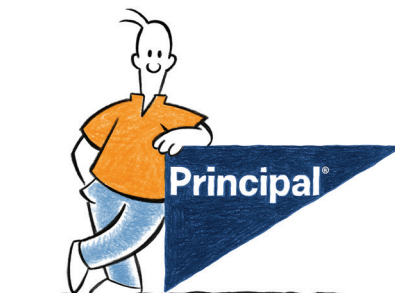
A Disconnect Between Priorities and Action

Introduction

Small businesses (those having fewer than 500 employees) are the backbone of the United States economy. They represent 99.7 percent of all employer firms and comprise about 43 percent of the total U.S. private-sector payroll. Small firms accounted for 63 percent of the new jobs created between 1993 and mid 2013.¹

To help keep a pulse on the small business market, in 2015 the Principal Financial Group® contracted with Harris Poll to conduct national business owner research.

¹ Source: U.S. Small Business Administration, Office of Advocacy, Frequently Asked Questions, April 2014.



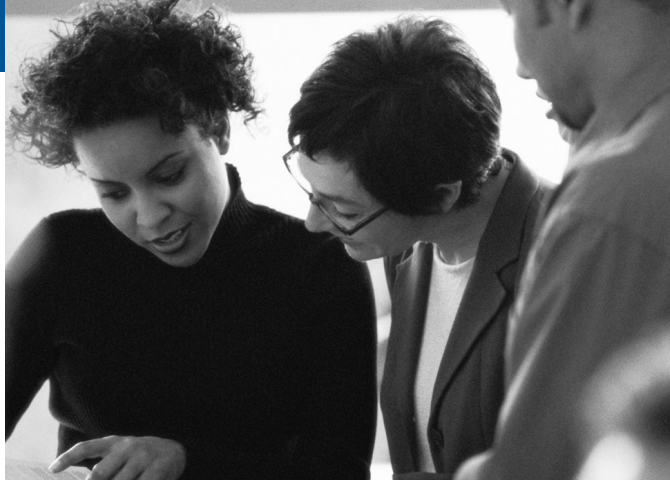


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Considerations for Business Owners

Like most Americans, business owners are busy. Prioritization and action don't always align. There is an opportunity for business owners to shape their financial road maps – for them personally, for their businesses, for their families and for their employees.

In light of the survey findings, it's recommended that small business owners:



Review their current benefit offerings, making sure those offerings reflect their goals and priorities for themselves, key employees and businesses.



Work with a financial professional to draft a comprehensive benefit plan to align their needs with key employee and business needs as a whole.



Take note of the benefits they don't offer and evaluate if they should provide them.



Educate themselves about available and recommended benefits, and ask for input from a financial professional.



Recognize the importance of networking with business peers in their communities.



Learn best practices and ways to improve their benefit offerings to improve both short-term operations and long-term plans of their businesses.



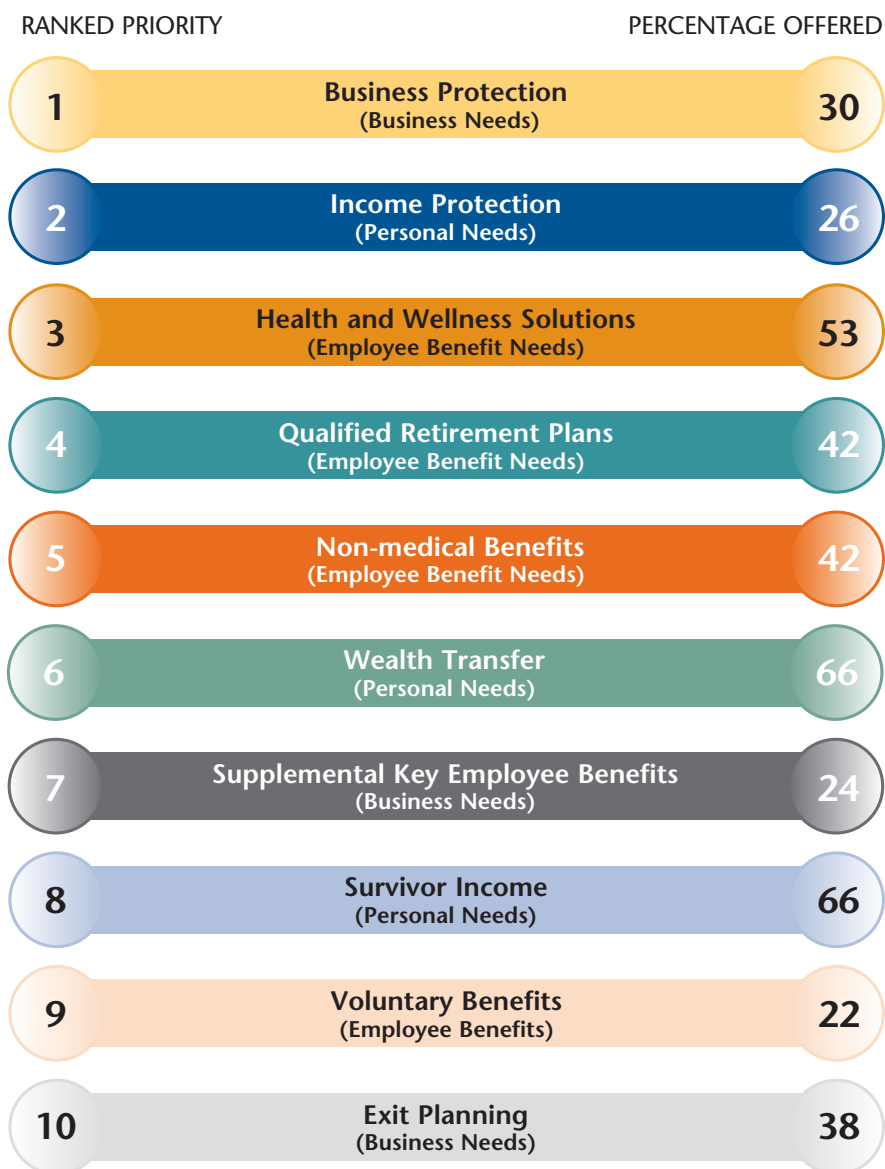
Avoid allowing short-term concerns to cloud long-term planning.

There is an opportunity for business owners to shape their financial road maps.

Key Survey Findings

Priorities don't always align with reality

Small business owners ranked the importance of 10 benefit categories (see the appendix for definitions) from highest to lowest. They were also asked to identify the benefits they offer for their businesses (business needs), for themselves (personal needs) and for their employees (employee benefits).



Perception versus reality

Business owners considered business protection their most important priority, yet, the majority doesn't have any plans in place.

Despite the pre-eminence of business protection, business owners continue to put the needs of employees and themselves above needs of their businesses. This situation is not getting any better. There was a significant decrease in the percentage of owners having business protection coverage – down to 30 percent in 2015 from 36 percent in 2012.

Between 2012 and 2015 priorities shifted for business owners, but still cover priorities in each of the three need categories:

- **BUSINESS PROTECTION** (business needs) was owners' highest-priority benefit for the second consecutive time, yet 66 percent of small business owners do not have any business protection plans.
- **INCOME PROTECTION** (personal needs) ranked second (first time since the inception of the survey). This year's data show a significant decrease in the number of owners who have individual disability income insurance – a bit more than one-quarter (26 percent) in 2015, compared to one-third in 2012.
- **HEALTH AND WELLNESS SOLUTIONS** (employee benefit needs) ranked third (for the third time), although almost half (45 percent) do not offer these benefits to their employees.

Specifically, 2015 results show that of the owners surveyed:

- 85 percent have at least one personal need (a wealth transfer plan, income protection or survivor income).
- 61 percent offer at least one group benefit (health and wellness solution, non-medical benefit, voluntary benefit or qualified retirement plan).
- 45 percent have at least one business need benefit in place (supplemental key employee benefit, business protection plan or exit plan).

45%

Less than half have at least one business need in place.

Other personal needs lack attention

Personal needs are vitally important for family stability.

- **SURVIVOR INCOME** (individual life insurance). 66 percent of small business owners have this, down five percent from 2012. It's a benefit, though, that over half (56 percent) of business owners are likely to recommend to other business owners.
- **WEALTH TRANSFER**. As in 2012, only two-thirds of owners have some type of wealth transfer plan.

Income protection moved up in priority to second, but those who own it declined from 32% to 26% between 2012 and 2015.

Goals in perspective

Business owners also ranked their confidence in achieving various goals in the next five years. The majority were confident they will achieve business stability, maximize profits and reach a revenue milestone.



Business and income protection plans could help achieve business stability.

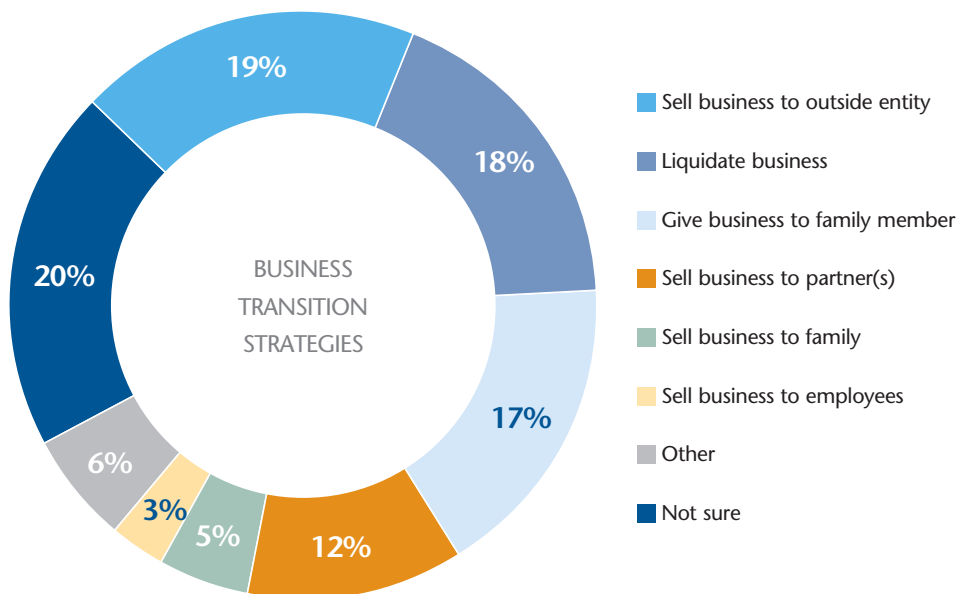
Exiting in style

Only one in five owners indicated one of their goals is to sell their businesses.

And, almost six in ten do not have a written plan in place. Having no exit plan, however, could lead to challenges when business owners are ready or need to transition out of their businesses quickly or unexpectedly. In addition, ignoring wealth transfer planning could result in negative financial outcomes for their families.

When asked what they would do if they needed to transition their business, answers were mixed.

Business owners could benefit from long-term planning and a properly written and documented plan – such as a buy-sell agreement.



Top concerns centered on the workforce

The concerns facing business owners take a toll, as they need to consider many factors in managing their workforce.



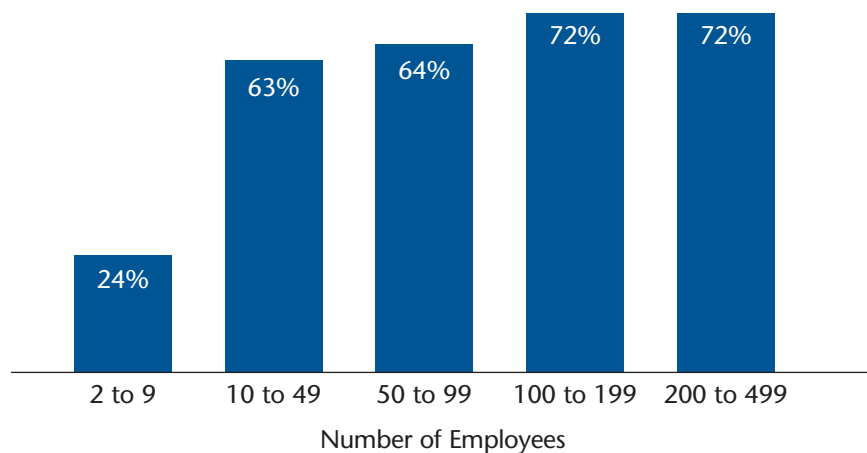
Other items to consider:

- Six in ten (60 percent) business owners indicated they are the primary decision maker for employee benefits. Other owners (as decision makers) came in a distant second at 16 percent.
- The top goal for offering an employee benefit package is to take care of employees (36 percent). The second most important goal is affordability (33 percent).

Productivity = the advantage of offering benefits

Four in ten (42 percent) business owners believed their employee benefits package helps improve the productivity of their workforce. This was especially true for companies who have more than 10 employees.

IMPACT OF BENEFITS ON PRODUCTIVITY



42%

said that employee benefits improve the productivity of their workforce.

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Appendix: Priority Definitions

First Priority: Business Protection

Business protection plans protect the integrity, cash flow and value of the business from the loss of a key employee due to death, disability or termination of employment. These solutions help businesses pay the expenses associated with recruiting and training new key employees.

Second Priority: Income Protection

Individual disability income insurance helps replace a portion of income lost due to a disability.

Third Priority: Health and Wellness Solutions

Employer-sponsored health benefits provide medical and health-related benefits generally to all employees and their dependents. Wellness programs are organized activities companies offer their employees to help them maintain or improve their health.

Fourth Priority: Qualified Retirement Plans

Qualified retirement plans are defined contribution and defined benefit retirement solutions, including 401(k)s, traditional defined benefits, profit sharing plans, Savings Incentive Match Plan for Employees Individual Retirement Accounts (SIMPLE IRAs) and Simplified Employee Pension (SEP) plans. These benefits are generally made available to all eligible employees.

Fifth Priority: Non-Medical Benefits

Non-medical benefits are employer-sponsored, including life, short-term disability (STD), long-term disability (LTD), dental and vision insurance. The employer can pay all or part of the premium. When an employee pays 100 percent of the premium, the product is typically referred to as voluntary.

Sixth Priority: Wealth Transfer

Wealth transfer is the preparation of plans and/or agreements to ensure there are assets – both personal and business – to meet business owners' lifetime objectives. It helps assets be distributed in the most equitable and efficient manner consistent with owners' goals and objectives.

Seventh Priority: Supplemental Key Employee Benefits

Supplemental key employee benefits are nonqualified benefits generally offered only to key employees whose performance most affects the success of the business. These benefits can help recruit, reward and retain key employees. As supplemental key employee benefits relate to retirement, they can help make up for restrictions on qualified retirement plans.

Eighth Priority: Survivor Income

Survivor income is the concept of using life insurance to help protect a business owner's family in the event of the owner's death. Survivor income also provides solutions for business owners to help their families achieve particular financial objectives.

Ninth Priority: Voluntary Benefits

Voluntary benefits are employer-sponsored benefits where employees pay 100 percent of the premium (50 percent or more for dental). Usually employees pay for these benefits through payroll deduction. Voluntary benefits may include life insurance, short-term disability, long-term disability, dental, vision, long-term care, cancer, critical illness and accident.

Tenth Priority: Exit Planning

Exit planning is the establishment of formal agreements by and between business owners and family members, key employees or other third parties to help provide for the continuation or sale of the business due to an owner's death, disability or retirement.

Research Methodology

The survey was conducted by Harris Poll and included 507 online interviews conducted from January 12 through January 28, 2015. Interviews were conducted using the Harris Poll Panel.

Respondents qualified for this survey if they met the following criteria:

- United States resident age 21 and older
- Currently employed, either full time, part time or self-employed
- Business owner of at least 5 percent of the company
- Actively manage their business
- Own a company with between 2 and less than 500 employees

Results were weighted for company size based on the number of employees, entity type and annual sales. Potential respondents for this survey were selected from among those who had agreed to participate in Harris Poll surveys. Because the sample is based on those who agreed to be invited to participate in the Harris Poll online research panel, no estimates of theoretical sampling error can be calculated.

About The Principal®

The Principal Financial Group® is a global investment management leader offering retirement services, insurance solutions and asset management. The Principal offers businesses, individuals and institutional clients a wide range of financial products and services through its diverse family of companies. Founded in 1879 and a member of the FORTUNE 500®, the Principal Financial Group has \$530.3 billion in assets under management as of March 31, 2015, and serves some 19.9 million customers worldwide from offices in Asia, Australia, Europe, Latin America and the United States. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG. For more information, visit www.principal.com.

About Harris Poll

Harris Poll is one of the world's leading custom market research firms, leveraging research, technology and business acumen to transform relevant insight into actionable foresight. Known widely for the Harris Poll and for pioneering innovative research methodologies, Harris offers expertise in a wide range of industries including health care, technology, public affairs, energy, telecommunications, financial services, insurance, media, retail, restaurant and consumer package goods. Serving clients in over 215 countries and territories through its North American, European and Asian offices and a network of independent market research firms, Harris specializes in delivering research solutions that help Harris – and its clients – stay ahead of what's next.



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