

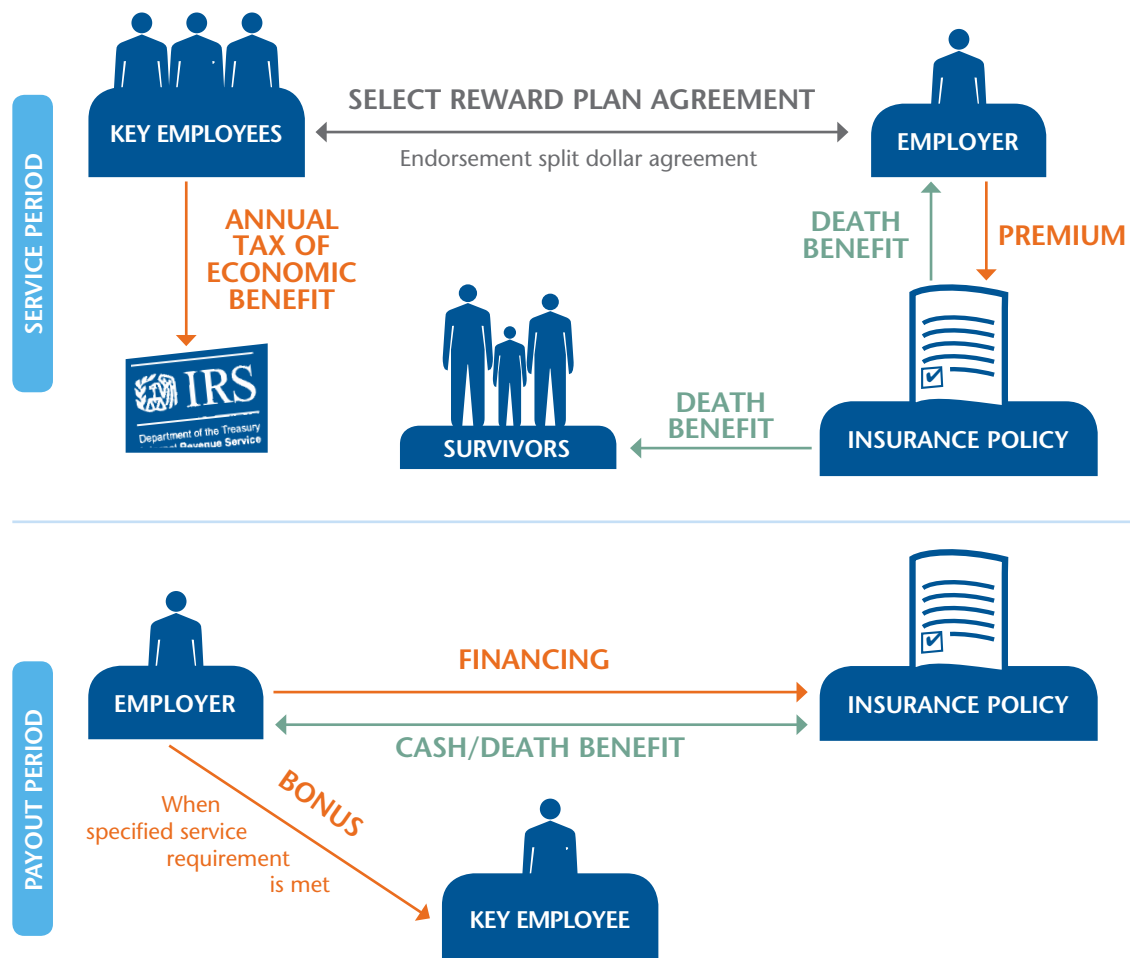
Principal® Select Reward Plan

Retaining select employees is a key concern for most growing business owners. The Principal® Select Reward Plan can help by building a path for loyalty with executive rewards.

This plan allows you to address multiple business needs with one financial solution. While creating strong “golden handcuffs” that tie key employees to your business, you can also reward the key employee with benefits. Not only are they given a lump-sum bonus at the end of a service requirement, their families receive assurance through a life insurance death benefit should death occur during the service period.

How it works

A life insurance policy is used to finance a lump-sum bonus at the end of a pre-determined service period. Cash value in the insurance policy can then be used to finance the bonus or ownership of the policy may be transferred to the key employee. Upon a key employee's death before the end of the service period, death benefit proceeds can be portioned out to both the employer and the key employee's survivors.



Employer ensures the policy has sufficient cash value to satisfy the bonus. Either a withdrawal of cash value can be made, or a policy transfer can satisfy the bonus requirement. The key employee will owe income taxes on the bonus amount in the year the bonus is paid.

BENEFITS AND CONSIDERATIONS

For the employer:

- One financing vehicle for funding multiple benefits for select employees.
- A method for influencing key employee company loyalty during a pre-determined service period (generally 12-15 years).
- In the event of premature death, a tax-free death benefit* may be received to recover the cost of the life insurance premiums paid.
- Premiums are paid with corporate, after-tax dollars. Each premium payment reduces annual cash flow.
- A tax-deduction for the entire bonus amount in the year that the policy is transferred to the executive.
- Bonus must be paid in a lump sum within 2½ months of the end of the tax year in which the executive meets the service requirement to avoid being considered a deferred compensation plan and subject to IRC Section 409A requirements.

For the executive:

- Executive must provide evidence of insurability to qualify for the life insurance policy.
- Income tax must be paid on the economic benefit costs during the service period – at a significantly lower cost than paying the entire premium on a term insurance policy.
- Executive pays income tax on the entire bonus in the year it is received. There is no option to receive annual payments, or to defer the bonus.
- Policy cash values may be used to pay the income taxes due on the bonus, in the year in which the bonus is paid.
- Policy cash values may be accessed for personal financial needs once policy ownership is transferred.
- Bonus must be paid in a lump sum within 2½ months of the end of the tax year in which the executive meets the service requirement to avoid being considered a deferred compensation plan and subject to IRC Section 409A requirements.

* If the requirements of IRC Section 101(j) are not met, then death proceeds from employer-owned life insurance contracts may be taxable as ordinary income in excess of cost basis.

Learn more. | *Contact your financial professional today.*



WE'LL GIVE YOU AN EDGE®

Principal National Life Insurance Company and Principal Life Insurance Company, Des Moines, Iowa 50392-0001, www.principal.com

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