# 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) insurance<sup>1</sup> 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.





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 Replacement<sup>1</sup> coverage.

# Did you know?

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

#### **ONE-WAY BUY-OUT GUIDELINES**

• DBO Product: HH794<sup>1</sup>

• **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.

#### Ask clients these questions:

## CLIENT DISCUSSION TIPS

- 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-free<sup>3</sup> (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



WE'LL GIVE YOU AN EDGE®

<sup>&</sup>lt;sup>1</sup> Not approved in all states. Go to www.principal.com/distateapprovals for details.

 $<sup>^2</sup>$  2015 Business Owner Market Study, conducted by Harris Poll for the Principal Financial Group $^{\circ}$ .

<sup>&</sup>lt;sup>3</sup> If premiums are paid with after-tax dollars.