PROGRAM PROFILE

One-way buy-out

Check out this profile to get up-to-speed on the key features of a one-way buy-out using Disability Buy-Out (DBO) insurance.

How it works

Offer a disability buy-sell option for one business owner, with a one-way buy-out. With this concept, a key employee can purchase DBO insurance[1] to fund a buy-sell agreement between themselves and the owner of the business. If the owner becomes permanently disabled, the key employee uses policy benefits to buy the business.

Sole owner

Owner sees the need for an exit strategy and develops a written agreement with a key employee.

Agreement

Outlines that the key employee will purchase the business upon the owner's exit.

Key employee

Benefits fund the purchase of the business in the event of the owner's total disability (and exit of the business).

Target market

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

- Professional service-related companies, such as architecture, healthcare, law, engineering, accounting, and technology firms
- Profitable, growing businesses with gross revenues of $500,000 or more
- Business in existence for more than three years (one year for service businesses) and valued under $20 million

Product and underwriting guidelines

DBO product: HH794[1]

Issue ages: 18 to 55

Maximum issue limit: $1 million

Financial documentation required:

- Prior three full years of federal corporate tax returns
- Current year-to-date profit and loss and balance sheets
- Complimentary informal business valuation by Principal Business and Advanced Solutions team

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 child
- 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.

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 Replacement[1] coverage.

Prospecting tips

- Get involved in your local community by joining business and neighborhood associations, volunteering, and/or joining the local Chamber of Commerce.
- Make connections with businesses that you frequent or do business with yourself, like your accountant and dentist.
- Use LinkedIn to determine if you have common connections to prospects and then ask for referrals.

Starting the conversation with clients

Security of your business:

- What back-up plan do you have in place today?
- What is your business worth? Principal® offers complimentary business valuations to business owner clients.

Identify gaps in coverage.

- Who would you have step in to run your business if you can't? Do they have the knowledge and financial means to buy your business?

DBO insurance advantages

Principal DBO insurance:

- Provides the key employee or owner 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[2] (premiums are not deductible)

Buy-sell agreement basics

Buy-sell agreements generally cover a variety of triggering events, such as death, disability, divorce, bankruptcy, and retirement. In the event of a disability, a well-funded buy-sell agreement can protect:

- The disabled business owner by obligating the identified purchaser to buy out the owner's interest.
- The purchaser by providing funding to help purchase the disabled owner's interest. Generally, DBO insurance uses a structure similar to the cross purchase arrangement, where the business owner is the insured and the key employee is the owner and beneficiary of the policy.

Let's connect

Contact your financial professional or go to **principal.com.**

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

[2] If premiums are paid with after-tax dollars.

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