



Disability Buy-Out Insurance

Could You Stay in Business?

If one of your company's owners became totally disabled, is your business prepared to stay in business? Ask yourself these questions:

- Does your company have the funds to buy out the disabled owner's share?
- Would another owner want to purchase the disabled owner's share? Would the disabled owner's family want to take over?
- Could your company continue to pay the salary of the disabled owner?

Now's the time — before a disability strikes — to address these issues by putting a written, properly funded buy-sell agreement in place.

Buy-sell agreement funding options

BORROW MONEY	CASH FLOW/SINKING FUND	DISABILITY BUY-OUT INSURANCE																						
<ul style="list-style-type: none"> • Are you certain your business could borrow money with a key person out of the picture? • How high will the interest rate be? • Could you generate enough new business to meet the repayment schedule? 	<ul style="list-style-type: none"> • Will this obligation impair your ability to borrow money for other business necessities? • Will you be able to make the payments? • Will there be enough time to accumulate funds before a disability occurs? 	<ul style="list-style-type: none"> • The Buy-sell agreement is funded immediately. • It reimburses money used to purchase a totally disabled owner's interest. • It helps you operate on a "business as usual" basis — no excessive debt endangering future profits. 																						
<p>Cost example¹:</p> <table> <tr> <td>Principal loan payments</td> <td>\$500,000</td> </tr> <tr> <td>Tax on non-deductible principal payments</td> <td>+\$257,576</td> </tr> <tr> <td>Gross profit needed for principal payments</td> <td>\$757,576</td> </tr> <tr> <td>Net interest payments</td> <td>+ \$81,014</td> </tr> <tr> <td>Total payments needed for buy-out</td> <td>\$838,950</td> </tr> </table> <p>Sales needed to fund repayments \$8,385,900</p>	Principal loan payments	\$500,000	Tax on non-deductible principal payments	+\$257,576	Gross profit needed for principal payments	\$757,576	Net interest payments	+ \$81,014	Total payments needed for buy-out	\$838,950	<p>Cost example¹:</p> <table> <tr> <td>Business interest value</td> <td>\$500,000</td> </tr> <tr> <td>Tax bracket</td> <td>34%</td> </tr> <tr> <td>Total cost</td> <td>\$757,576</td> </tr> </table> <p>Sales needed to fund repayments \$7,575,760</p>	Business interest value	\$500,000	Tax bracket	34%	Total cost	\$757,576	<p>Cost example¹:</p> <table> <tr> <td>Business interest value</td> <td>\$500,000</td> </tr> <tr> <td>Annual premium</td> <td>\$2,550</td> </tr> <tr> <td>Maximum premiums payable</td> <td>\$51,000</td> </tr> </table> <p>Sales needed to pay insurance premiums \$510,000</p>	Business interest value	\$500,000	Annual premium	\$2,550	Maximum premiums payable	\$51,000
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Which option makes the most sense — making large buy-out payments when you or one of your partners became disabled or making small premium payments when you and your partners are healthy and the firm can most easily afford them?

FOR MORE INFORMATION

Contact your local representative to learn more about Disability Buy-out insurance from Principal Life Insurance Company.

¹ Assumptions for examples: \$500,000 business value, five-year repayment schedule at 9% interest, 365-day elimination period, 10% profit margin, 34% corporate tax bracket, 45-year-old, non-smoker male at a top occupation classification, Colorado resident.



WE'LL GIVE YOU AN EDGE[®]

Insurance issued by Principal Life Insurance Company, Des Moines, Iowa 50392-0002, www.principal.com

Disability insurance has certain limitations and exclusions. For costs and complete details of coverage, contact your Principal Life financial representative.