Principal®

Agribusiness solutions | Proposal

Opportunities for more control of your future

Your personalized agribusiness analysis

Presented to:

Husband and Wife

Presented by:

Valued Producer

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Your legacy

You've put in long hours building your operation, and your legacy, so that you can pass it on intact. Because no one knows what tomorrow will bring, now is the time to plan for that transition. Thankfully, you have options. And we'll help you through some simple steps to create a strategy that allows you and your family to:

- Live your best life
- Protect the legacy you've worked hard to build
- Keep peace in the family

Reviewing this personalized report is an important next step.

Your personalized agribusiness planning report from Principal® uses information you provided to develop a simplified starting point. It will help you begin creating a plan for your personal financial future, or for the next generation's ownership. From here, we'll work with you and your tax and legal advisors to develop solutions that work best for you. Below is the five-step method we'll follow:

Reviewing this personalized report is an important next step.

Take a look at these four planning categories designed to help you and your family work together to realize long-term planning goals.

Business organizations	Succession strategies	Estate planning	Retirement income
Entity comparison	Buy-sell arrangements	Wills & trusts	Retirement analysis
Liability protection	Succession plan funding	Inheritance equalization	Supplemental income
Discounting techniques	Key person protection	Estate taxes	Chronic illness protection
	Key person retention	Gifting techniques	

Your profile

You

Name	Date of birth	Occupation	Number of remaining working years	Notes
Husband	1/1/57		6	
Wife	1/1/58		8	

Your children

Name	Date of birth	Spouse	Number of children	Notes
Son #1	1/1/90	Yes	3	
Son #2	1/1/92	Yes	2	
Son #3	1/1/94	No	0	

Your parents

Name	Date of birth	Health	Number of children	Do they have an estate plan?
Dad	1/1/30	Deceased		Yes
Mom	1/1/36	Good	3	Yes
Dad	1/1/30	Deceased		Yes
Mom	1/1/36	In Nursing Home	1	Yes

Summary information

Agribusiness name	Successor(s)	Entity type	Primary asset(s)
Family Farms	Son #1	LLC	Land & Equipment

Your goals

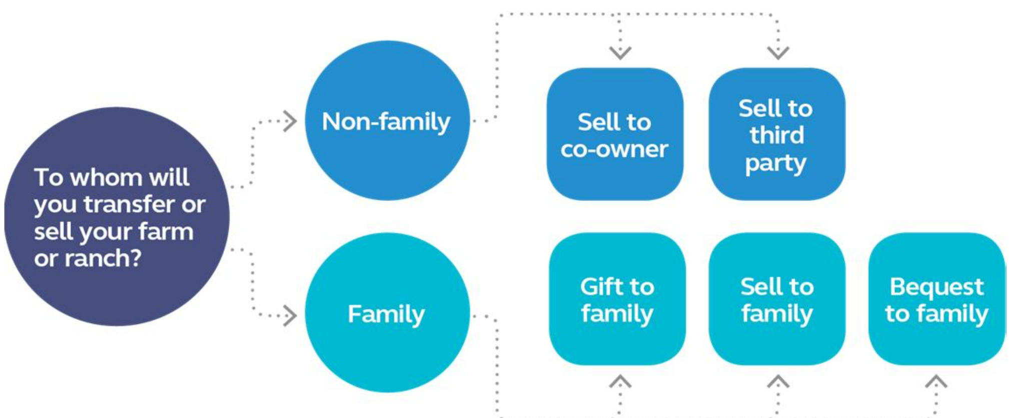
Plan for your transition with a succession strategy

If you are like most farmers and ranchers, you have given hours of thought to how, when and to whom you will transfer your operation. Too often, your everyday business gets in the way of long-term planning. Someday, you will leave your operation, whether predetermined or by an unplanned event.

It is important to make plans to exit your operation on your terms - no matter what the circumstances are. This planning can help protect you and your family under all contingencies: retirement, death, disability, personal bankruptcy or even a divorce.

Key items to consider

Who – To whom will you sell or transfer the operation?
Timing – When do you want to transition out of the operation?
Funding – What will it take to generate the income you need for estate liquidity, succession strategies and replacement income after your working years?



Your goals (continued)

Who

You identified your family as your likely successor to your agribusiness. As you are preparing for your business succession, it is equally important that your identified successor also prepares. Coordinating resources helps ensure a smoother, more efficient, and time-controlled transfer. Consider sharing this report with your successor in order to communicate the potential succession plan.

Timing

You indicated that your plan is to transition the agribusiness ownership during your lifetime. Ensure this goal can be accomplished. Coordinate your legal documents with funding sources to make sure sufficient funds are available before planned and unplanned events occur.

Asset distribution

Your goal is to treat heirs as fairly as possible. This means that the inheritances may not be exactly equal. This goal may require additional funding strategies. Review the Inheritance Equalization page to compare potential asset distribution and funding scenarios.

Legacy and estate planning

You are unsure if you will have to pay federal estate taxes. Review the Estate Tax Protection, Gifting and Entity Discounting pages to determine your potential federal estate tax liability and examine a common technique to reduce that liability.

Retirement income

You are unsure if you have adequate income-producing assets and savings to generate enough income for your retirement needs. Review the Retirement Analysis page to further consider this issue.

Financial summary

Following is a summary of your financial position based on information provided by you.

Real estate	Owner	Value	Liabilities
Residence	Joint	$250,000	$0
Land	Joint	$8,000,000	$0
Buildings	Joint	$500,000	$0
Rental Property			
Other			
	Subtotals	$8,750,000	$0

Agribusiness	Owner	Value	Liabilities
Equipment	Joint	$1,000,000	$0
Market Livestock		$400,000	
Breeding Livestock			
Harvested Crops			
Growing Crops		$500,000	
Accounts Receivable			
Other			
	Subtotals	$1,900,000	$0

Other assets	Owner	Value	Liabilities
Personal Property	Joint	$100,000	$0
Vehicles	Joint	$250,000	$0
Collectibles	Joint	$50,000	$0
Co-Op	Joint	$0	$0
Future Inheritances	Joint	$0	$0
Other	Joint	$0	$0
	Subtotals	$400,000	$0

Financial summary (continued)

Personal assets	Owner	Value	Annual contributions
Cash & Equivalents	Joint	$300,000	$0
Investments	Joint	$200,000	$0
Annuities - You	Husband		
Annuities - Spouse	Wife		
Retirement Plans - You	Husband	$100,000	$0
Retirement Plans - Spouse	Wife	$200,000	$0
IRAs - You	Husband	$100,000	$0
IRAs - Spouse	Wife	$50,000	$0
Roth IRAs - You	Husband	$0	
Roth IRAs - Spouse	Wife	$0	
Other			
	Subtotals	$950,000	$0
Net worth*			$12,000,000

Income sources	Annual income	Age income begins	Age income ends
Wages - You	$50,000	59	65
Wages - Spouse	$50,000	57	65
Social Security - You	$15,834	67	90
Social Security - Spouse	$15,834	67	90
Rental Income	$10,000	59	90
Agribusiness Income	$0	59	90
Investment Income	$0	59	90
Pension Income - You	$0	65	90
Pension income - Spouse	$0	65	90
Other Income	$0	59	90

Life insurance	Insured	Face amount	Owner	Beneficiary
Principal Term	Husband	$1,000,000	Husband	Wife

Disability insurance	Insured	Face amount	Owner	Elimination period

This data is provided for informational purposes and is based on information you provided which may include assets that are not held by any member company of the Principal Financial Group®. Any assets not held by Principal Securities, Inc. may not be covered by SIPC. Refer to the financial statements you receive from your financial services provider(s) for information regarding SIPC membership.

Business organizations
Understanding entity types

What potential issues should I consider about my operation now and after I'm gone?

The owner has likely had this conversation already, as the decision is typically discussed with legal and tax advisors. Typically, they've established a specific formal structure type based on pros and cons affecting liability, taxes and control for them, their family and the business partners. Your role is to bring resources that help them review their business structure and consider how it will affect their overall plan, including protection needs, financial goals and succession planning.

- Does your business structure protect personal assets from business liabilities?
- How does your business structure affect your income taxes?

Entity type	Sole proprietorship	General partnership	Family limited partnership	S Corporation	C Corporation	Limited Liability Company (LLC)
Maximum number of owners	1	Unlimited	Unlimited	100	Unlimited	Varies*
Liability	Unlimited personal	Unlimited personal	Unlimited for general partners	Limited to business assets	Limited to business assets	Limited to business assets
Control	Sole owner	General partners	General partners	Voting shareholders	Voting shareholders	Managing members
Allocation of profits	All to sole owner	Allocated by agreement	Allocated by agreement	Pro rata to shareholders	Taxed to corporation	Varies*
Units to transfer	None	Partnership interests	Limited partnership interests	Shares	Shares	Membership units
Income taxation	Taxed to individual	Passed through to partners	Passed through to partners	Passed through to shareholders	Double taxation	Varies*

* Limited Liability Companies can elect to be taxed as a Partnerships, S Corporations, or C Corporations. Single member LLC's who have elected partnership will be taxed as a sole proprietorship. The attributes of an LLC will depend on how it has elected to be taxed.

Comments and considerations

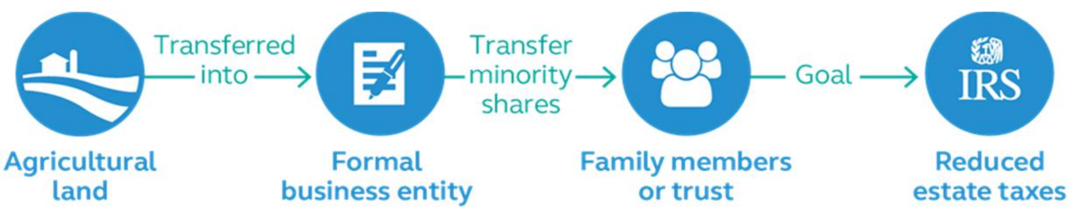
- You have indicated that transitioning the agribusiness to the family is important.
- You currently have a business entity for your agribusiness.
- A business entity will help with the transition process.
- The benefits include potential liability protection, management control, ability to fractional interests and additional flexibility to allocate profits.
- Disadvantages include additional recordkeeping and business tax returns to maintain.
- The business entity must be operated as a separate business.
- Consult with your tax and legal advisors about reviewing your existing business entity.

Business organizations
Understanding entity types (continued)

Farm and ranch owners are often looking for a solution to reduce their taxable estate while still maintaining control over their assets. Most common solutions for reducing a taxable estate involve gifting or otherwise transferring ownership of the asset(s) in question. This can also impact the owners' federal estate tax liability. Another common way to achieve the same goal is by employing an entity discounting strategy.

How it works

If an appreciated asset (such as land) is not already inside a formal entity, the land or other assets can be transferred into a formal business entity (e.g. family limited partnership or limited liability company). Then, business interests can be gifted among family members to create minority owners. This may result in the minority ownership interests being 'discounted' in value, due to lack of control and voting rights.



		No entity discounting		With entity discounting
Land value		$8,000,000		$8,000,000
Hypothetical entity discount	x	0%	x	30%
Less discount	-	$0	-	-$2,400,000
Post-discount value	=	$8,000,000	=	$5,600,000
Less estate tax exemption	-	$5,490,000	-	$5,490,000
Taxable portion	=	$2,510,000	=	$110,000
Federal estate tax rate	x	40%	x	40%
Estate tax liability	=	$1,004,000	=	$44,000
Hypothetical difference				$960,000

For illustrative purposes only. This hypothetical example is not intended to predict specific values and is used to help explain how discounting works.

Comments and considerations

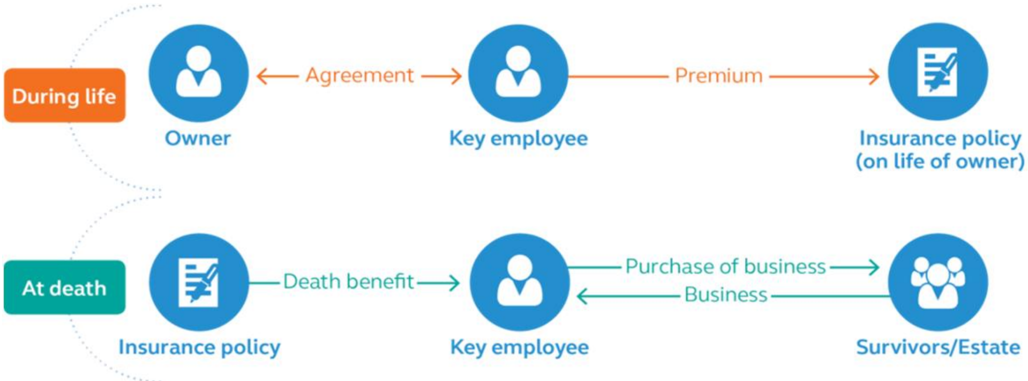
- You indicated that you would like to transition the agribusiness to the family using minority interest and entity discounts.
- Taking advantage of entity discounts may help you achieve these goals.
- Please consult with your tax and legal advisors about appraising the value of any gifts and determining the appropriate discounts (if any).

Succession strategies
Buy-sell arrangements

Do you have a strategy in place to transfer your business to the right people, at the right time, for the right amount of money? Transitions are more successful when you have established a plan for your departure – whether expected or unexpected. One way you can protect your business is by putting a buy-sell agreement in place. A one way buy-sell agreement arranges for a potential buyer, ideally a key employee, to purchase your business interest. The purchase can be triggered by death, disability, retirement or other departure.

How a one way buy-sell works

Once the agreement is in place, the key employee (buyer) purchases a life and/or disability insurance policy on you for the agreed upon business purchase price. He or she is then the owner, premium payer and beneficiary of the policy, and uses the proceeds to purchase the business from you or your estate after the triggering event. Proceeds from the sale can then be used by you or your estate to help pay off any outstanding liabilities.



What you need to know

There are advantages to this sort of an agreement, just as there are some other things to consider.

You're properly compensated – Selecting a buyer, implementing the agreement and properly funding it helps assure you're compensated for the value of the business you created.

Business may pay premiums – Dollars used to pay premiums are taxable as a bonus to the policy owner and are generally deductible by the business.

Business can avoid disruption – Having a plan in place, can help retain faithful, long-term employees.

Key employee can be protected – A "right of first refusal" provision in the agreement provides some security to the key employee that the business won't be sold to a third party with no recourse.

Key employee can be required to maintain the policy – This may mean paying the premiums and notifying you before any policy rights are exercised.

Disability buy-out insurance is available – Principal offers unique coverage for this purpose.

Comments and considerations

- Consider establishing a buy-sell agreement with your successor.
- Based on the information provided, discuss with local counsel whether a one way buy-sell is best suited for your needs.
- Please see the buy-sell funding page to examine funding options.

Succession strategies
Buy-sell funding

Need for funding
Buy-sell agreements involve the selling and buying of a departing owner's interest in accordance with the formal agreement. It is important for all owners to have a plan for securing the money needed to complete this transaction when it occurs. Various options exist for the owners.

Funding methods
Cash - Requires that sufficient funds be available to pay the full price in the designated timeframe.

Borrowing - Involves future unknown factors such as credit availability and cost of borrowing. Any borrowed funds must be repaid with interest.

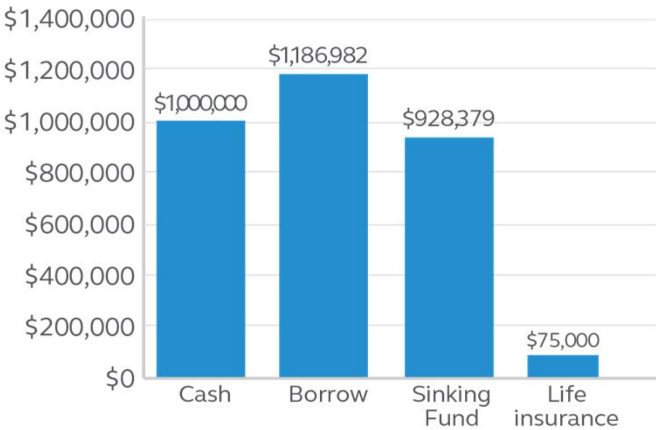
Saving - Does not assure sufficient funds will be available when needed because the timing of departure is not predictable.

Installment sale - Requires repayment from earnings and forces your heirs to rely upon the future success of the business in order to make payments.

Life Insurance - Is purchased on the owners at the time the buy-sell agreement is implemented. This option provides liquidity when needed. Upon death, the buyer receives the insurance benefit which can be used to fund the purchase of the operation.

Timing of liquidity and cost are important considerations when determining an appropriate funding method for your situation. Compare these hypothetical protection costs for a $1,000,000 purchase price.

Hypothetical funding method cost at end of the 15 years



Cash	$1,000,000
Borrow	Represents five equal annual payments of $200,000 plus interest at 6%.
Sinking Fund & cash	Sinking fund of $146,621 (annual deposits equal to the life insurance premiums growing at 8%) plus the balance necessary of $853,379 in cash.
Insurance	Life – $1,000,000 face amount.Estimated premiums of $5,000 for Male, 45, Preferred, Nontobacco, UL Flex II policy. Insurance premiums paid for 15 years. Not valid without accompanying insurance illustrations. See illustrations for important information.

Comments and considerations
- If the operation had to transfer tomorrow, would cash flow needed for daily activities be impacted?
- Consider fully funding the buy-sell with life insurance.
- Consult your advisors about what type of insurance will best meet your needs.

Succession strategies
Installment sale

Oftentimes, family members or key employees don't have the resources to purchase the operation outright. An installment sale can help facilitate the transaction, provide long-term income, and spread the capital gains tax burden over time.

How it works
The buyer makes a down payment, then using an installment note, the buyer pays the remaining amount based on a predetermined payment schedule of principal and interest. Life insurance is often used on the seller and buyer to protect the sale in the event of an untimely death.

	Installment note			Cost to buyer		Net to seller			
Year	Beginning-of-year note value	Interest & principal payment	End-of-year note value	Pre-tax annual cost	After-tax annual cost	Annual proceeds	Personal income taxes	Capital gains taxes	Net proceeds to seller
0	0	0	0	400,000	615,385	400,000	0	51,429	348,571
1	2,400,000	281,353	2,190,647	281,353	432,851	281,353	25,200	26,917	229,236
2	2,190,647	281,353	1,975,013	281,353	432,851	281,353	23,002	27,724	230,627
3	1,975,013	281,353	1,752,910	281,353	432,851	281,353	20,738	28,556	232,060
4	1,752,910	281,353	1,524,144	281,353	432,851	281,353	18,406	29,413	233,535
5	1,524,144	281,353	1,288,515	281,353	432,851	281,353	16,004	30,295	235,055
6	1,288,515	281,353	1,045,818	281,353	432,851	281,353	13,529	31,204	236,620
7	1,045,818	281,353	795,839	281,353	432,851	281,353	10,981	32,140	238,232
8	795,839	281,353	538,361	281,353	432,851	281,353	8,356	33,104	239,893
9	538,361	281,353	273,158	281,353	432,851	281,353	5,653	34,097	241,603
10	273,158	281,353	0	281,353	432,851	281,353	2,868	35,120	243,365

Assumptions

Farm or ranch value	$8,000,000	Note term	10
Ownership interest to be sold	50%	Note interest rate	3%
Value of ownership interest	$4,000,000	Seller's income tax rate	35%
Less minority discounts	30%	Seller's capital gains	20%
Sales price	$2,800,000	Seller's basis	$2,000,000
Down payment	$400,000		
Note value	$2,400,000		

* This is a hypothetical example only and is used to illustrate how an installment sale works. Assumed rates and values will vary based on your specific situtation.Work with your tax advisor to ensure note interest rates are consistent with current requirements.

Comments and considerations
- Consider the after-tax cost of buying the operation on an installment basis if transferring the operation to a family member.
- Consider the potential tax benefits of gifting to heirs.
- Consider protecting the sale with life insurance.

Succession strategies
Key person insurance

Oftentimes, the most valuable assets of any farm or ranch are the key people who contribute most to its success. They generate revenue, handle major responsibilities and have a unique wealth of knowledge that seems irreplaceable. If their loss would create a financial burden that puts the future profitability of the entire operation at risk, a key person insurance policy is a simple and efficient solution.

The reality

Private agriculture, forestry, fishing and hunting industries have the highest fatal work injury rate.[1]

How it works

Your operation is the owner and beneficiary of a life insurance policy for each key employee chosen, which can include agribusiness owners. If the unexpected does happen, the business receives cash, generally income tax-free, to help overcome the financial burden of the loss.

[1] Source: U.S. Department of Labor, Bureau of Labor Statistics, National Census of Fatal Occupational Injuries in 2015, December 2016. https://www.bls.gov/news.release/pdf/cfoi.pdf

Comments and considerations

- Identify the employees who are key to your operation.
- Consider obtaining key person insurance on your key employees.

Succession strategies
Key person retention

Plans for select key employees

An effective tool to help recruit, reward and retain employees is a nonqualified supplemental retirement plan. When properly designed and financed, these plans can help select key employees reduce the challenges created by qualified plan limits. These solutions can also be tailored by employees to meet the needs of both the agribusiness and the plan participants they select.

By offering a valuable benefit, these plans can help you recruit, retain and reward the key employees that contribute the most to the success of your operation. These plans:

- Enhance your total benefits package by offering a financial reward.
- Encourage loyalty by helping to secure their financial futures.
- Incentivize key employees to grow the operation
- Are subject to simplified government reporting and disclosure rules – or none at all.

Consideration for common nonqualified plans

Business considerations	Principal Executive Bonus Plus℠	Principal SERP Select℠	Principal® Select Reward Plan	Executive Nonqualified Excess Plan℠
Immediate tax deduction	Yes	No	No	No
Golden handcuffs	Limited	Yes	Yes	Yes
Cost recovery	No	Yes	Yes	Yes
Administrative services	Yes	Yes	Yes	Yes
Employer contributions	Yes	Yes	Yes	Yes
Employee contributions	Yes	No	No	Yes

Comments and considerations

- Discuss with your tax and legal counsel whether a key person retention plan can be beneficial to your operation.

Legacy and estate planning
Wills and trusts

Estate planning is equally important for both married and single people to distribute your personal and business assets. It can also help minimize the impact of taxes and expenses while maximizing distributions to heirs.

Preservation techniques involve both estate and business planning. Numerous effective techniques are available to successfully protect and transfer your assets.

Medical power of attorney

You reported that you do not have a medical power of attorney.
A medical power of attorney names an "attorney-in-fact" to make medical decisions on your behalf upon physician certification that you are unable to do so. Your attorney-in-fact has a legal obligation to always act in your best medical interest. Therefore, no court-appointed guardian is necessary to make such decisions.

Financial power of attorney

You reported that you are unsure if you have a financial power of attorney.
A financial power of attorney provides a designated person, your "attorney-in-fact," authority to make financial decisions on your behalf at your discretion either [a] immediately; or [b] upon physician certification that you are unable to do so. In the absence of a financial power of attorney, a court conservatorship proceeding would be necessary to appoint a representative conservator to make your financial decisions in the event you could not do so.

Living will

You reported that you are unsure if you have a living will.
A living will is a legal document that explains your end of life care instructions regarding pain medication, artificial life support, and resuscitation efforts. This document relieves your family from having to make these difficult decisions by obligating your health care provider to follow these previously written instructions.

Will

You reported that you have a current will in place.
A will allows you to direct how your assets will be distributed after your death. With a will, a judicial "probate" is likely required to settle your affairs. Consult with your legal and tax advisors whether additional planning may be appropriate.

Key:

Do not have	Unsure	Have

Legacy and estate planning

Wills and trusts (continued)

Revocable trust

You reported that you do not have a revocable trust.

A revocable living trust, when properly funded, owns your assets for your personal use and control during your lifetime. This trust can be amended any time before you pass away and, upon your death, the trust assets bypass judicial probate and provide additional flexibility to your distribution plan. A common mistake is to fail to re-title or transfer assets into the trust. As a result, the assets that you intended to bypass judicial probate end up there anyway. Confirm with your legal and tax advisors that your trust has been properly funded.

Family trust

You reported that you are unsure if you have a family trust.

A family trust, also known as a bypass or credit shelter trust, is used by married couples to minimize the estate taxes payable. This arrangement is one of the strategies that can help both spouses fully utilize their estate tax exemption. Upon the death of the first spouse, the family trust receives assets from the deceased up to the amount that is exempt from estate tax under current law. This trust typically pays income for life to the surviving spouse. Assets inside a family trust are typically outside the reach of the surviving spouse's creditors. Upon the death of the surviving spouse, any remaining assets are distributed to the heirs without being included in the surviving spouse's estate.

Irrevocable life insurance trust

You reported that you do not have an irrevocable life insurance trust (ILIT).

An ILIT is an irrevocable trust that owns a life insurance policy on your life. The objective is to exclude the death benefit from your estate for federal estate tax purposes and, ultimately, funnel the death proceeds to your beneficiaries or pay other debts. Because it is irrevocable, it can be very difficult to undo once put into place.

Distribution plans

You reported that you have a distribution plan.

You reported that your distribution plan attempts to treat heirs as fairly as possible. This means that the inheritances may not be exactly equal. This distribution plan may result in a great deal of negotiations between your surviving children/beneficiaries if the assets are not easily divided. This distribution plan, when applied to the unique characteristics of an agribusiness, can result in family conflict and litigation.

Comments and considerations

- You reported that your estate plans do not include:
  a medical power of attorney, a revocable trust, or an irrevocable life insurance trust.
- Consult with local counsel about reviewing/updating your estate plans.

Legacy and estate planning

Inheritance equalization

While the inheritance you leave each of your kids may not be identical and equal, it can still be fair and equitable, which keeps peace in the family. You might feel like you are trying to divide the indivisible because the non-liquid operation is your biggest asset. First, decide what legacy you want to leave, and what fair looks like (because only you can). Then you'll be able to assess the options and find a solution.

If you can't leave an inheritance you think is fair without risks to the future success of the operation, life insurance can be a critical tool. It will allow you to keep the operation intact while maintaining peace in the family, which is the ultimate goal.

First, determine the amount of business and non-business assets, and what fair distribution looks like to them. Calculate the additional assets needed to achieve the distribution goal. Then purchase life insurance in the amount needed. Upon the owner's death, the business can go to one heir, and the non-business assets and life insurance benefit goes to the other. Review the current plan and proposed solution charts on the following summary, then consider adding life insurance as a solution to treat your heirs equitably, while keeping your assets intact.

Current plan

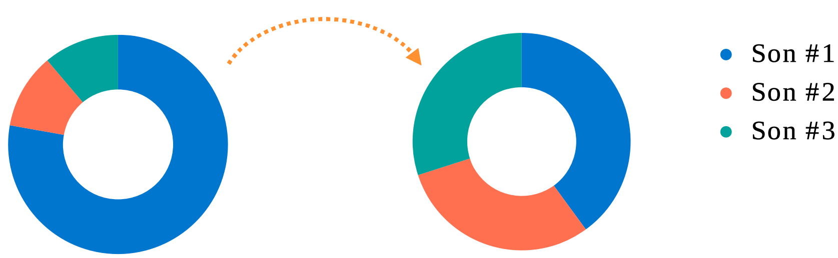
Type	Total	Son #1	Son #2	Son #3			
Ag assets	$8,000,000	100%	0%	0%	0%	0%	0%
Other assets	$4,000,000	33%	33%	33%	0%	0%	0%

Proposed plan

Type	Total	Son #1	Son #2	Son #3			
Ag assets	$8,000,000	100%	0%	0%	0%	0%	0%
Other assets	$4,000,000	0%	50%	50%	0%	0%	0%
New insurance	$8,000,000	0%	50%	50%	0%	0%	0%

Current plan

Proposed plan

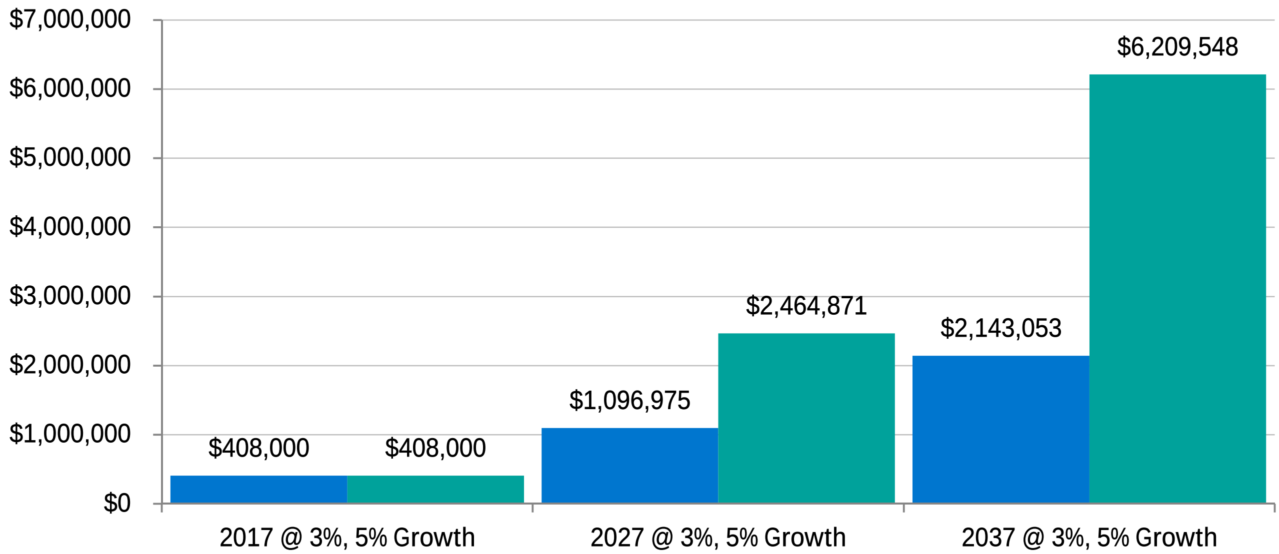


Comments and considerations

- You indicated that being "fair" is more important than being "equal."
- Consider purchasing life insurance to create fair inheritances among your heirs.

Legacy and estate planning
Estate tax protection

Death-related taxes can be devastating to a family agriculture business. The 2017 federal estate tax exclusion (which can be passed on without paying federal estate taxes) is $5,490,000 per person, and $10,980,000 for married couples (using portability) to combine each married person's respective federal estate tax exclusion. The chart belowshows future values and estate projections for an estate worth $12,000,000 today.



		Passes in 2017	Passes in 2027	Passes in 2037
Growth rate 3%	Estimated fair market value	$12,000,000	$16,126,997	$21,673,335
	Projected estate tax	$408,000	$1,096,975	$2,143,053
Growth rate 5%	Estimated fair market value	$12,000,000	$19,546,736	$31,839,572
	Projected estate tax	$408,000	$2,464,871	$6,209,548

Comments and considerations

- Based on the information you provided, your estate may have a federal estate tax liability. As your estate grows, so too will your potential estate tax liability.
- Review these numbers with your tax and legal counsel.
- If you have insufficient funds to cover your federal estate tax liability, it may be necessary to liquidate farm/ranch assets with a private sale or public auction.
- Consider techniques to minimize potential estate and inheritance taxes.
- Consider a permanent life insurance policy to help pay any federal estate taxes.

Legacy and estate planning
Gifting techniques

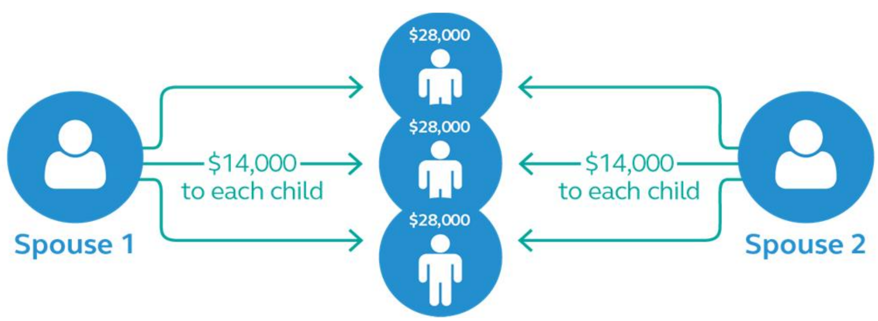
Gifting techniques can help you accomplish a number of potential estate planning goals:

- Reduce federal estate taxes.
- Facilitate your business succession plan.
- Provide immediate use of the gift.
- Provide additional support for loved ones.
- Move future appreciation out of the taxable estate.

In 2017 annual exclusion gift amount is $14,000. This is the amount you can gift without paying federal gift taxes or filing a federal gift tax return. The $14,000 is per donee, per year. Therefore, married couples can gift a combined $28,000 per donee in 2017.

Example

A married couple with three children could gift $84,000 annually.



Your scenario

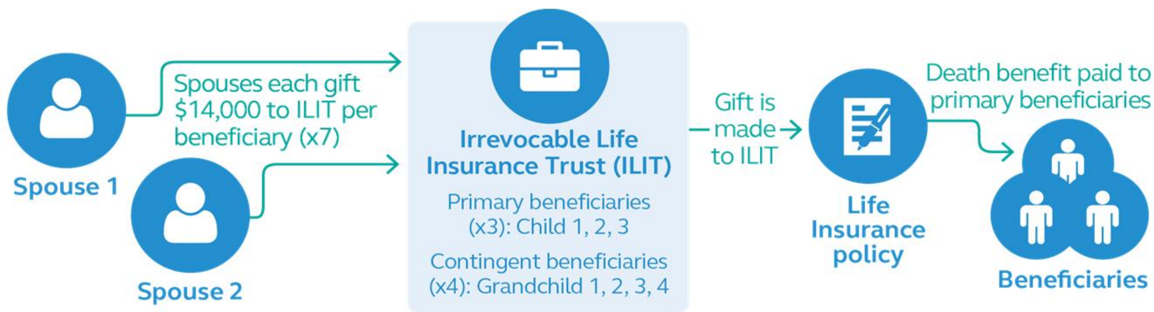
Number of donors		Your number of beneficiaries		2017 annual gift exclusion amount		Combined annual gift exclusions
2	x	3	x	$14,000	=	$84,000

Using this gifting method, you could possibly remove $84,000 worth of potentially taxable assets from your estate and transfer it to your children/heirs without paying any federal gift tax.

Legacy and estate planning

Gifting techniques (continued)

Another common use of the gift exclusion is to fund life insurance premium payments for a policy inside an irrevocable life insurance trust (ILIT). This creates a federal estate tax-free and income tax-free death benefit for the beneficiaries.



Hypothetical example

Annual exclusion gifts					Gift to trust and hold as investment		Gift to trust and purchase life insurance		Difference
Year	Number of donors	Number of donees	Annual exclusion amount	Total annual gift	Annual investment	Trust assets after 5% growth	Annual life insurance premiums	Life insurance death benefit	Additional benefit to heirs
1	2	7	$14,000	$196,000	$196,000	$205,800	$196,000	$13,182,249	$12,976,449
5	2	7	$14,000	$196,000	$196,000	$1,083,024	$196,000	$13,182,249	$12,099,226
10	2	7	$14,000	$196,000	$196,000	$2,465,267	$196,000	$13,182,249	$10,716,982
15	2	7	$14,000	$196,000	$196,000	$4,229,396	$196,000	$13,182,249	$8,952,851
20	2	7	$14,000	$196,000	$196,000	$6,480,927	$196,000	$13,182,249	$6,701,322

This assumes purchase of $13,182,249 life insurance policy for $196,000 annual premiums. For Preferred Non-Tobacco, male age 68 and Preferred, Non-Tobacco, Female age 68, the death benefit is guaranteed until the youngest insured's age 100. Not valid without accompanying insurance illustration. Please see illustration for important information.

Comments and considerations

- Consider using your annual gift exclusions to gift agribusiness interests. As the annual gifts accumulate over time, a substantial portion of your operation can be transferred from your taxable estate to your successors.
- Alternatively, consider using your annual gift exclusions to pay life insurance premiums for a policy owned by an ILIT. These income tax-free death benefits can be used towards estate debt reduction and/or other needs.

Retirement income

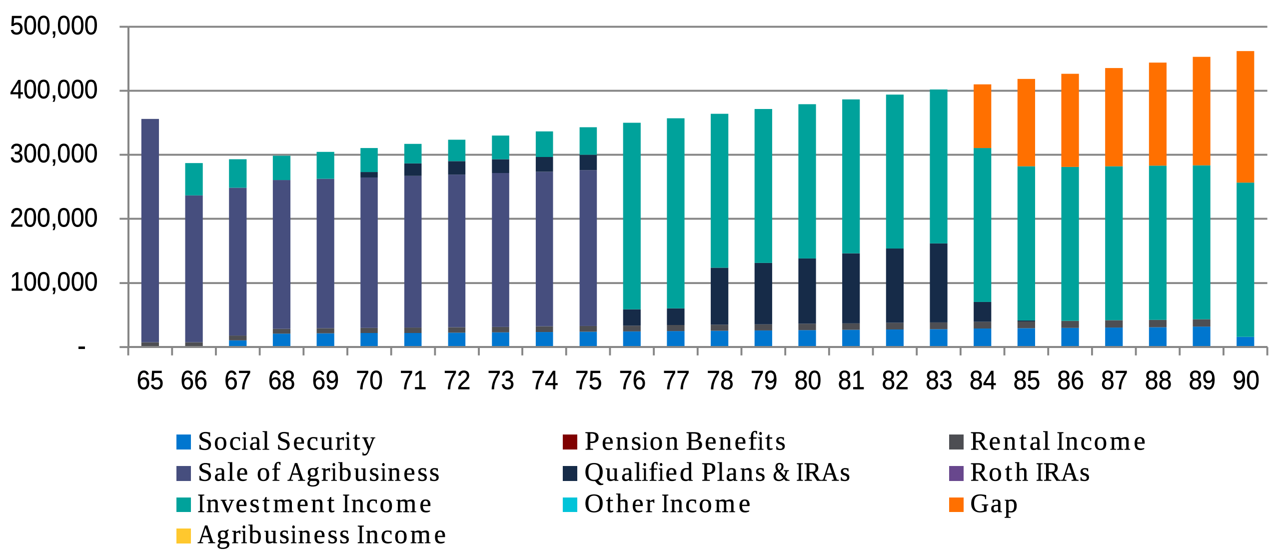
Retirement analysis

Let's look at your retirement income based on the sale of your operation and other savings. Based on the information you provided, we have put together the following analysis.

Assumptions

Current age	59	Qualified plans and taxable IRAs	$450,000
Spouse's age	58	Annual qualified plan contributior	$0
Retirement age	65	Roth IRA balance	$0
Mortality age	90	Annual Roth IRA contributions	$0
Desired annual income	$250,000	Investment Account Balance	$200,000
Annual social security income	$15,834	Annual investment contributions	$0
Age to begin social security	67	Other income	$0
Spouse social security income	$15,834	Pre-retirement rate of return	5.0%
Age to begin social security	67	Inflation rate	2.0%
Rental income	$10,000	Federal and State income tax rate	35%
Operation income	$0		

Your retirement gap at age 65 is $343,501



Comments and considerations

- Based on the information you provided, you may not have enough savings and income producing assets to support your retirement income goals.
- Consider qualified retirement plan and nonqualified plan options.
- Consider additional savings and strategies for supplementing your income.

Retirement income

Supplemental and retirement income

Your farm/ranch will likely play a key role in providing your income source during retirement, whether through rental income or your continued labor. A supplemental retirement plan may provide you with necessary additional income; which can be funded in a variety of ways. Diversifying your income source based upon timing and income tax characterization can also be beneficial. See advantages and disadvantages of common financial tools below.

Investments | Investment vehicles such as stocks, bonds, CDs or mutual funds

Advantages	Disadvantages
• Long-term gains taxed at capital gain rates	• Earnings taxable to owner, annually
• Flexible contributions	• No insurance death benefit
• Many investment options	• Distributions in excess of basis are taxable

Annuities | Premiums in an annuity contract — either fixed or variable

Advantages	Disadvantages
• Earnings accumulate tax deferred	• Surrender charges may apply[1]
• No medical underwriting	• Income in respect of decedent at death
• Guaranteed death proceeds bypass probate process	• 10% penalty on earnings for distributions prior to age 59½
• Can provide a guaranteed income for life	• Distributions are "gain first" (taxable at ordinary income tax rates)

Life insurance | Premiums into a life insurance policy

Advantages	Disadvantages
• Earnings accumulate tax deferred	• Mortality cost of insurance
• Tax-advantaged distributions such as loans and partial surrenders (subject to policy limitations/charges)[2]	• Underwriting process
• Tax-free life insurance proceeds may bypass probate process and protect dependents	• Owner may not be insurable
	• Policy fees and expenses
	• Impact of loans and withdrawals[2]

[1] If the contract has surrender charges, withdrawals beyond the free withdrawal provision may have an additional charge.

[2] Withdrawals and loans taken from life insurance policies classified as modified endownment contracts may be subject to income tax and may also be subject to federal tax penalty if the withdrawal or loan is taken prior to age 59½. Withdrawals and loans will also reduce the policy cash surrender value and may cause the policy to lapse. Lapse of a life insurance policy can cause loss of death beneft and adverse income tax consequenses.

Comments and considerations

- A cash value life insurance policy can provide supplemental retirement income and provide a lump sum benefit upon your death.
- Consider whether investments, annuities, and/or a life insurance policy is best suited for your supplemental retirement income needs.

Retirement income
Chronic illness protection

You can protect your family from the hardships of a serious, long-term illness. The Chronic Illness Death Benefit Advance rider is a free[1], additional coverage option that allows you to access part of your policy's death benefit if you're diagnosed with a chronic illness. By accessing the income tax-free[2] funds early, you can:

- Pay for quality care
- Protect your retirement savings
- Help your family feel financially secure
- Live the best life possible

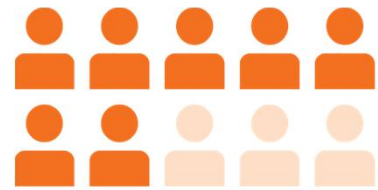
Put simply, a chronic illness means:

- Being unable to perform two of the six Activities of Daily Living for at least 90 consecutive days, and your condition must be permanent.
- Requiring substantial supervision by another person for at least 90 consecutive days to protect against threats to health and safety due to a permanent severe cognitive impairment.

Benefits of this rider

You can get what you need to help you through tough times. By accessing the policy death benefits early, you can:

- Afford top-quality care
- Make necessary changes to your home to accommodate your needs
- Offset increased living expenses
- Pay assisted living or nursing home fees
- Help with medical expenses not covered by insurance
- Assist with family or professional caregiving costs
- And more



7 in **10** people age 65 and older can expect to use some form of long-term care during their lives

Source: http://longtermcare.gov/the-basics/who-needs-care as of Feburary 21, 2017

About **80%** of older adults have one chronic disease; **68%** of Medicare beneficiaries have two or more.

Source: NCOA.org, Chronic Disease Self-Management Facts, October 2016

[1] See the policy rider for specific details. The maximum lifetime accelerated death benefit amount is the lesser of 75% of the Initial Eligible Amount or $1 million.

[2] Surrender charges and other policy charges may apply to distributions taken from the policy. If the policy is a modified endowment contract (MEC), policy distributions in excess of the policy's principal may be subject to current income taxes.

Comments and considerations

- A chronic illness can interfere with retirement, succession and estate plans.
- You indicated that you are concerned about a chronic illness.
- Consider purchasing a life insurance policy which includes provisions to protect you in case of a chronic illness.

Your customized planning considerations

We are here to help you achieve your goals. We understand that some of your goals are more important to you than others so make sure to let us know which issues are your priorities so we can focus our attention and your resources there first.

Business organizations

Priority | Target date

Understanding entity types

- Consult with your tax and legal advisors about reviewing your existing business entity.

Entity discounting

- You would like to transition the operation using entity-discounting.
- Please consult with your tax and legal advisors about appraising the value of any gifts and determining the appropriate discounts (if any).

Succession strategies

Priority | Target date

Buy-sell arrangements

- Consider establishing a buy-sell agreement with your successor.
- Based on the information provided, discuss with local counsel whether a buy-sell will help facilitate the succession of your operation.

Buy-sell funding

- Consider fully funding the buy-sell with life insurance.
- Consult with your advisors about what type of insurance will best meet your needs.

Key person protection

- Identify the employees who are key to your operation.
- Consider obtaining key person insurance on your key employees.

Key person retention

- Discuss with your tax and legal counsel whether a key person retention plan can be beneficial to your operation.

Your customized planning considerations (continued)

Legacy and estate planning

	Priority	Target date
Wills and trusts		
• Consult with local counsel about reviewing/updating your estate plans.		
Inheritance equalization		
• You indicated that being "fair" is more important than being "equal".		
• Consider purchasing a life insurance policy to create fair inheritances among your heirs.		
Estate tax protection		
• Continue to monitor your estate over time. As your estate grows, so will your potential estate tax liability.		
• Consider techniques to minimize potential estate and inheritance taxes.		
• Consider a permanent life insurance policy to help pay any federal estate taxes your estate may incur.		
Gifting techniques		
• Consider using your annual gift exclusions to gift agribusiness interests.		
• Alternatively, consider using your annual gift exclusions to pay life insurance premiums for a policy owned by an ILIT. These income tax free death benefits can be used towards estate taxes, inheritance equalization, debt reduction and/or other needs.		

Your customized planning considerations
(continued)

Retirement income

	Priority	Target date
Retirement analysis		
• Based on the information provided, you may not have enough savings and income-producing assets to support your retirement income goals.		
• Consider qualified retirement plan and nonqualified plan options.		
• Consider additional savings and strategies for supplementing your income.		
Supplemental retirement income		
• Consider whether investments, annuities, and/or a life insurance policy is best suited for supplementing your retirement income needs.		
Chronic illness protection		
• You indicated that you are concerned about a chronic Illness. Consider purchasing a life insurance policy which provides protection for a chronic illness.		

Your goals, our purpose

No matter what's important to you, Principal is here to help you identify and implement solutions that are right for your operation's needs.

We help farmers and ranchers protect and achieve their financial dreams through financial solutions that can help them live their best lives.

We work with people like you every day and make it a priority to understand where you want to be and how you plan to get there. This means you'll get expertise and innovative ideas when you need them to make your financial progress possible. Our life insurance solutions have been protecting people for more than a century. And by working with a Top 20 provider of life insurance[1], you'll know you're in good company. From basic, affordable protection to more robust solutions for long-term needs, you'll find coverage to fit your situation.

Our leadership in delivering insurance protection solutions for individuals, employers and their key people runs deep. Our comprehensive product portfolio, paired with unique and flexible plan designs mean you get solutions tailored to your specific needs.

Work with a leader

- A leader in the business market and a Top 20 life insurance provider.[1]
- No. 3 provider of individual disability income insurance.[2]
- No. 5 provider of group benefit insurance.[3]
- No. 1 provider of nonqualified deferred compensation plans.[4]

[1] Based on 2014 LIMRA data of annualized new sale premium (February 2015)

[2] Based on 2015 LIMRA data of annualized new sale premium for non-cancelable policies, February 2016.

[3] Based on 2015 LIMRA data on fully insured employer contracts in force, May 2016.

[4] Based on total number of NQDC plans, PLANSPONSOR 2015 NQDC Buyer's Guide.

Appendix - Retirement income sources

Client age	Annual need	SS & pension	Rental income	Ag income	Sale of ag assets	Qualified plans & IRAs	Invest-ment income	Other income	Gap
65	$281,541	$0	$7,320	$0	$348,571	$0	$0	$0	$0
66	$287,171	$0	$7,466	$0	$229,236	$0	$50,469	$0	$0
67	$292,915	$10,250	$7,616	$0	$230,627	$0	$44,422	$0	$0
68	$298,773	$20,910	$7,768	$0	$232,060	$0	$38,036	$0	$0
69	$304,749	$21,328	$7,923	$0	$233,535	$0	$41,962	$0	$0
70	$310,844	$21,755	$8,082	$0	$235,055	$8,115	$37,838	$0	$0
71	$317,060	$22,190	$8,244	$0	$236,620	$19,460	$30,547	$0	$0
72	$323,402	$22,634	$8,408	$0	$238,232	$20,806	$33,322	$0	$0
73	$329,870	$23,086	$8,577	$0	$239,893	$21,815	$36,499	$0	$0
74	$336,467	$23,548	$8,748	$0	$241,603	$22,855	$39,713	$0	$0
75	$343,196	$24,019	$8,923	$0	$243,365	$23,942	$42,948	$0	$0
76	$350,060	$24,499	$9,102	$0	$0	$25,078	$291,381	$0	$0
77	$357,062	$24,989	$9,284	$0	$0	$26,210	$296,578	$0	$0
78	$364,203	$25,489	$9,469	$0	$0	$88,846	$240,398	$0	$0
79	$371,487	$25,999	$9,659	$0	$0	$95,431	$240,398	$0	$0
80	$378,917	$26,519	$9,852	$0	$0	$102,147	$240,398	$0	$0
81	$386,495	$27,049	$10,049	$0	$0	$108,998	$240,398	$0	$0
82	$394,225	$27,590	$10,250	$0	$0	$115,986	$240,398	$0	$0
83	$402,109	$28,142	$10,455	$0	$0	$123,114	$240,398	$0	$0
84	$410,151	$28,705	$10,664	$0	$0	$30,912	$240,398	$0	$99,473
85	$418,355	$29,279	$10,877	$0	$0	$1,491	$240,398	$0	$136,309
86	$426,722	$29,865	$11,095	$0	$0	$0	$240,398	$0	$145,364
87	$435,256	$30,462	$11,317	$0	$0	$0	$240,398	$0	$153,079
88	$443,961	$31,071	$11,543	$0	$0	$0	$240,398	$0	$160,949
89	$452,840	$31,693	$11,774	$0	$0	$0	$240,398	$0	$168,976
90	$461,897	$16,163	$0	$0	$0	$0	$240,398	$0	$205,336

The chart is for illustrative purposes only and is made available as a self help resource for your planning convenience. Retirement income sources are calculated on an after-tax basis. The results are based on your inputs and are not intended to be a financial plan or investment advice from Principal, but may be used as a general guideline to help you make personal planning and financial decisions. Responsibility for these decisions is assumed by you, not Principal.

All projections, analysis and calculation results are estimates and depend on many factors, including the data and assumptions you provide, and may not reflect all your sources of income or expenditures. Actual results may vary and do not guarantee future results not represent the returns of any particular investment.

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The previous pages depict certain business planning options. All of these options are based on the information you shared with us for this purpose and the assumptions stated throughout the report. Of course, any variance in the information or assumptions could change the results.

All assets assume specific growth rates, calculated based on information from the client. These individual rates are used to project the possible growth of the business. These projections are made to estimate future business insurance needs.
Although the informal business valuation from The Principal can provide a valuable starting point in helping you determine the value of your business, the valuation will not be a substitute for a formal valuation nor does it establish a value for tax purposes. A formal valuation should be constructed with the guidance of your legal and/or tax advisors.

Solutions outlined in this report do not imply a recommendation that a specific business planning option should be implemented. Rather it represents a summary of potential considered strategies, which each individual should discuss with his or her tax advisor, attorney, and/or other professional advisor before taking any action.

Because your business planning goals may change in the future, periodic monitoring should be an essential component of your program.

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Principal National Life Insurance Company Policy Form: ICC13 SN85/SN 85, Rider Forms: SN 10,SN 11, SN 25,SN 38, SN 49, SN 50,SN 54,ICCl 4 SN 92/SN 92, ICCl4 SN 93/SN 93 and ICCl4 SN 94/SN 94
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