

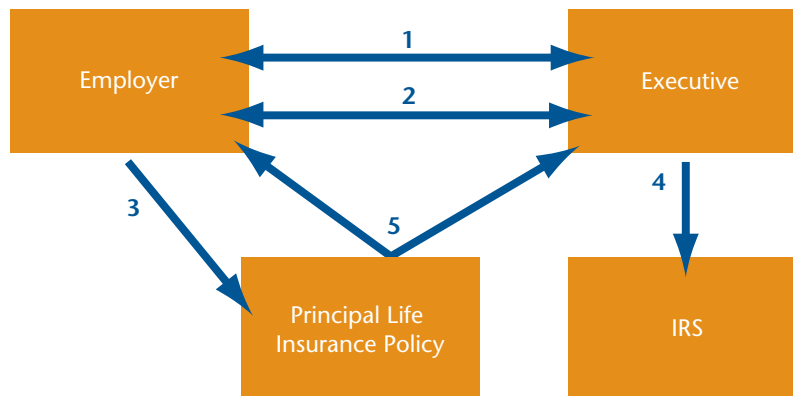
The Principal Financial Group®

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 financial peace of mind through a life insurance death benefit should death occur during the service period.

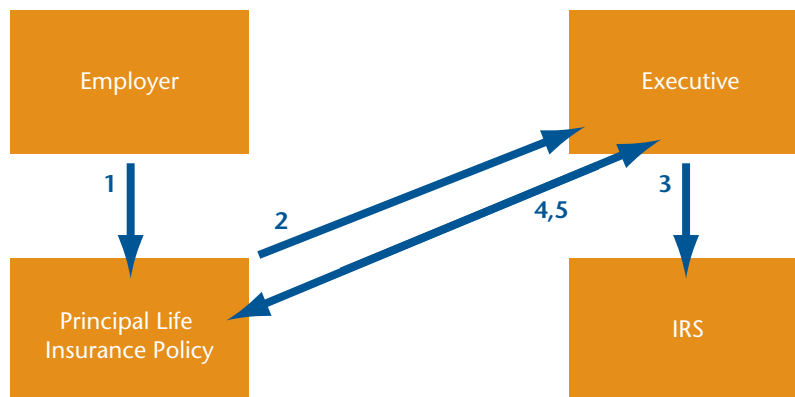
How it works – during the service period



1. Employer and executive enter into a Principal Select Plan Reward agreement. This is a promise by the employer to pay the executive a specified bonus if the executive meets a pre-determined service requirement.
2. Employer and executive enter into an endorsement split dollar agreement. This allows the executive to name a beneficiary (during the service period) for all, or a portion, of the death benefit on the company-owned life insurance policy.
3. Employer pays the entire premium of the life insurance policy (with after-tax dollars) and is the owner of the policy.
4. Employer endorses a portion of the life insurance policy's death benefit to the executive. During the service period, executive must pay the annual income tax on the economic benefit attributable to that death benefit amount.
5. If executive dies during the service period, employer and the executive's beneficiary will receive their specified portion of the death benefit – income tax free.

How it works – during the bonus payout period

When the service requirement has been met, the employer must pay the bonus in a lump sum to the executive. To satisfy the promised bonus, the employer will generally transfer ownership of the life insurance policy to the executive. (If the bonus is not paid within 2½ months of the executive meeting the service requirement, the plan may become subject to Internal Revenue Code (IRC) Section 409A.)



1. Employer ensures that the life insurance policy has sufficient cash values to satisfy the bonus that is owed the executive. If there is a gain in the policy, employer must include that gain in income prior to transferring the ownership of the policy to the executive.
2. Within 2½ months, ownership of the life insurance policy is transferred to the executive. Employer takes a tax deduction, as compensation, for the entire amount of the bonus paid to the executive.
3. Executive pays income taxes due on the fair market value of the policy, which is consideration for the promised bonus.
4. Policy cash values may be accessed through partial surrenders and loans to help executive pay the income tax liability.
5. Executive may access the remaining policy values – either as an annual income stream or, on an “as needed” basis.

Benefits and considerations

For the Business:

- 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 to avoid being considered a deferred compensation plan and subject to IRC Section 409A requirements.

For the Employee:

- A significant savings on the cost of the life insurance death benefit provided during the service period.
- 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.
- 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 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 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.

FOR MORE INFORMATION

Contact your financial representative.



WE'LL GIVE YOU AN EDGESM

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