



Q&A WITH DAN HARTY: PRINCIPAL'S BOES

by Charles Arnold

In my conversations with BGAs regarding the business market, there is one carrier that comes up almost every single time; Principal Financial. Principal is highly regarded as one of the most knowledgeable and experienced carriers in the business planning space with their Business Owner and Executive Solutions Team (BOES). For over 20 years the BOES team has been helping BGAs and financial advisors approach a very complicated business space with confidence. They are able to offer objective advice and deliver customized client solutions and support before, during, and after the sale. I had the opportunity to ask Dan Harty, a top BOES wholesale with Principal, about what makes Principal so good at what they do. I ended up walking away with a tremendous amount of valuable information from my interview. I've summarized most of Dan's responses and quoted him in a few spots. I've also indicated what I think to be the takeaway or action item for BGAs and advisors as a result.

What makes the BOES group so good at what they do, as an overview?

Simply put, it is what Principal does. This isn't a hobby or side business, this is a core focus of what Principal is all about. Every year, about 60% of the life insurance business for Principal comes from the business market space, so it is a core piece of what they do. They have customized tools and resources to better capitalize on the business marketplace and a lot of what they do comes before a sale is even made. When discussing their offering, they usually like to break it down to what they offer before, during, and then after the sale – which constitutes a complete package. Consultation is a primary function for the team with the BGA, advisor, and ultimately the client to find the right solution. The informal business valuation that Principal offers is a good example of this:

We have completed over 13,000 informal business valuations. We believe it has been a very successful tool in helping drive sales. It has been much more than simply driving buy-sell and key person funding. Our informal business valuations and accompanying proposal have led to the following types of sales: Bonus plans, Deferred Compensation, ESOP Repurchase, Split dollar, Select Reward, various buy-sell funding and key person to name a few. This tool has also driven significant disability premium.

Quote Obtained by: Britnee Scharnhorst, Sr. Internal Wholesaler – BOES

The process is all customized with a complete recommendation featuring an opportunity report and business planning evaluation. This is critical to help quantify a value for the business, especially to figure out what amount of funding is needed for a buy-sell arrangement. Another service they provide is to review any existing buy-sell document and make sure that things are still relevant. All of this is done on a complimentary basis if the company is of adequate size. These are probably two of the most popular “before the sale” services ([Informal Business Valuation Sheet](#)).

This report will incorporate some assumed growth rates for the business, which also may determine what type of product they recommend to fund the buy-sell, all the way from term insurance to permanent solutions or a combination thereof. Cash value solutions such as IUL would be potentially suitable for companies growing at a 3-6% rate annually where as VUL would be more suitable for companies growing at a faster rate of around 10-15%. Additionally, it is going to depend on what Dan called the “premium tolerance” for a business – which is how much they can afford without adding undo stress to the business operations and solvency. This is all customized for the business and client.

As we move into the “during the sale” services that Principal provides, they will offer a solution that fits the client’s needs. For instance, if a business is fairly new, they may not have the resource, or premium tolerance, to dedicate to a fully funded buy-sell agreement. They may partially fund it to say 75% and look to fund more later. They may use term insurance to fund it for a period of time, which Dan said is the majority of what he encounters. This is really a “band-aid” solution to the problem, but they do have the option to use a convertible term product to later convert that to a permanent solution, or they can use a combination of term and permanent insurance, which is what Dan says they are seeing a lot of this year. That goes into some of what Principal does “after the sale” which is to help companies and clients stay on track with their plans and making sure they convert those policies when the time comes. Principal sells all of these products, so the customer can really have all these incorporated under one umbrella. Dan has encountered, on many instances, where the client uses one company for one piece, and another for another piece, and it is hard from an accountability standpoint down the road who is responsible for what. With Principal, they can provide administrative services for all the plan aspects under one roof, making it one point of contact for the BGA, advisor, and client.

If a business is more established, they have more flexibility on how they want to fund a particular plan and Principal is there every step of the way to help. It also depends on the comfort level of the client as well, as far as insurance is concerned. This is the BOES wheel, or flower as some might call it, that illustrates the areas of expertise for Principal:



Anything you are seeing in the field as a significant opportunity, or an area that is significantly underserved? What is a good story right now?

The #1 thing they are seeing from a needs standpoint is how to effectively design employee retention strategies in a market that is very favorable to employees. Dan used the DOL statistic in our conversation called the “quit rate” that gives the number of people that quit their job in any given month. That statistic is the highest it has been in a decade at 2.2% ([DOL statistic link](#)). That means that employees are leaving for better opportunities and employee retention strategies are currently front and center for employers. This labor market has made it very challenging to retain and attract top talent, so this has been a huge focus for the BGAs that Dan works with on a regular basis and a concern of many financial advisors who are active in the business marketplace. Retaining employees is the top issue for business owners right now and Dan is focused on helping BGAs and advisors address that need.

What impact has the recent tax-cut and jobs act had on this marketplace?

The recent tax cuts have freed up a considerable amount of funds to use for business needs such as employee retention. One of the most common retention plans for 2018 has been a restricted executive bonus agreement (REBA). This allows businesses to offer something that vests over time, to incentivize employees as opposed to a one-time incentive. This really is a perfect storm, where you have a labor market that is extremely favorable to the employee and businesses that have extra cash on hand to attract and retain talent, along with a desire to remain competitive in their respective industries. That should spell opportunity for business planning strategies and applications.

This is the perfect opportunity for an advisor and a GA that understands this space, to work with the appropriate carriers in designing solutions.

Dan Harty, MBA, CLU®, ChFC®, Reginal VP, BOES

Do you have any material on the recent tax cut that you are using in the field that our GAs and advisors could also use?

There are some different pieces around the Tax Cuts and Jobs Act that are advisor facing. [Piece #1](#) focuses on business taxation and [piece #2](#) is about personal income tax changes. Dan and the team have also developed an advisor facing PowerPoint presentation that is available for any GA to use with advisors. Dan has found this very effective.

Another huge opportunity that Dan is seeing is solutions for business owners themselves because of these tax cuts. They may have, for the first time perhaps, some extra cash to invest or to put towards their retirement planning. This lends to life insurance and retirement planning opportunities and ways they can take some of the cash value and use it for their personal planning.

There are opportunities for business owners themselves to leverage some of the tax-savings today knowing that the pass-through deduction will sunset sometime in the future, so there is a real need to start taking advantage of that now.

Dan Harty, MBA, CLU®, ChFC®, Reginal VP, BOES

What do you use primarily in the field to describe your complete offering? What has been successful to use?

Dan likes to use a simple one page, front and back piece that outlines the non-qualified plans available for key employees: [NQ Plans for Key EE's](#). Simple, yet effective at helping to frame the conversation and discuss which plan is suitable for what business situation.

Competitors, what does that look like? Industry-wide where does Principal sit as far as being a market leader?

There are a lot of great carriers in this space, and even some entering the space for the first time in wake of these opportunities from the changes in the tax laws. Principal has been doing this for over 20 years with 18,000+ plans on the books, so they are already positioned as a market leader and trusted resource. Because they have been doing this for a long time, Principal has examples, case studies, and sales success stories to apply to any current situation. So, they bring a breath of experience to the table. For instance, BOES is #1 in NQDC and the ESOP space¹. They are ranked among the top 5 carriers for almost any other business market solution category each year.

I run into primarily two different carriers with dedicated teams within the space. But, we are all here to serve the client, they are going to win sometimes and we are going to win sometimes. Actually, often we split the business because the advisor or client wants to diversify across carrier solutions.

Dan Harty, MBA, CLU®, ChFC®, Reginal VP, Business Solutions

How often does the Principal Accelerated Underwriting (AU) Program come into play?

It is a strong differentiator in a lot of cases. Any time they have worked through a case, where the face is less than \$1 million and they fall into the category with the health checklist, they will always discuss it with the client. If it makes sense, they always bring it up as an option. With 15 plus lives as an example, they can go guaranteed issue or fully underwritten as their choices. With the AU program you can bring another element into the game. Say 10 folks are healthy and think they can get a great rate individually, they can go through the AU program. For the remaining 5, they can be fully underwritten. That solution together may be the way to go as opposed to guaranteed issue. The AU program is easy and preferable for many clients, with no medical exams or lab work required. It won't work for everyone, but it is always an option that is discussed.

How often does the 401(k) or retirement plan act as a referral source for your business?

Even from the mutual fund platform, many times, referrals can come to the BOES team. As an example, there is a hospital with a 403(b) utilizing administrative services from Principal, looking to do a non-qualified plan, a section 162 bonus plan specifically, and the advisor was a 401(k) advisor who didn't have the experience in the non-qualified space. He turned to the BOES team for help and the client was already familiar with Principal. Principal was very involved in that sale and made it work for the client and advisor. It was a very large case. They were already familiar with Principal and their administrative services platform, so they were in a good position to do business. It allowed

¹ Based on total number of Section 409A plans and non-governmental 457 plans, PLANSPONSOR 2017 Recordkeeping Survey, June 2017. #1 recordkeeper of ESOPs based on number of plans, PLANSPONSOR Recordkeeping Survey, June 2016

for one login with a single sign-in to view and administer all their plans. Principal can also refer business to any BGA as a result of referrals that come from our other lines of business. If an advisor doesn't have a GA, they can interview multiple Principal GA partners for the best fit.

Do you want to leave the BGAs and readers with anything specific?

At no other time in recent history have business owners faced such pressing financial planning challenges, unfortunately with such little support. From exit planning in a changing market to retaining key employees in a very competitive labor market, the challenges these business owners are facing are great. The tools, resources, and support that Principal brings to your firm allows you to position yourself as a unique general agency in the business market and allows you to not only discuss and be aware of, but also help meet the challenges these business owners are facing.

Dan Harty, MBA, CLU®, ChFC®, Reginal VP, Business Solutions

A lot of times the bigger cases that get placed start with the client or GA picking up the phone and saying, "I've got a guy who has this issue" and then it gets referred to someone at Principal either internally or externally. This leads to Principal's point of sale support across the country that can be of assistance regionally. Tax and legal support from CPAs and attorneys are behind the BOES team as well.

In this current market environment, where employees have choices and employers have extra resources to attract and retain them, it creates a perfect storm for business planning opportunities. Additionally, business owners have excess funds to invest in their own futures and now is the perfect time to talk to them about how they can use excess funds from the business to help fund their financial futures. Resources before, during, and after the sale from Principal are impressive and can help any BGA or point of sale professional approach this market.

Top BGA & Advisor Opportunities:

- Employee Retention and Executive Benefit Plans
- Individual Business Owners Life Insurance Retirement Planning
- Buy-Sell Funding and Implementation (Using Complimentary Informal Business Valuation and Buy-Sell Review from Principal)

As an example, almost every advisor has a few 401(k) plans in their book of business. Some advisors focus on that market exclusively, and many in-between. Those are the right type of advisors to approach as a starting point and the best approach for any sales person is to ask questions. You could start with having the advisor ask their business client if the new tax law has had a positive impact on their cash flow. The answer is likely yes, and the advisor can immediately direct the conversation to the ways they can use those excess funds to help retain or attract top talent. Did you know the Department of Labor quit rate is at a current 10 year high? Employees have choices. I'm sure you are aware this is a very competitive market for hiring good talent right now, and the statistics confirm that. Or if that isn't a priority for you as a business owner, perhaps using those funds to enhance your own financial stability. Lastly, as a business owner, do you currently have a buy-sell agreement in place in case of death, disability, or departure of an owner(s)? If so would you like an expert to review that agreement? I have a trusted resource for this service that I've used with other advisors, and it has proven very valuable. Is it funded, and if so, is it adequately funded? Would it be helpful to

have a complimentary informal business valuation to make sure you are on track from a funding standpoint? As a BGA you can coach your advisors to ask such questions or ask them together. With the expertise of Principal employees like Dan in your corner to back you up, you really have nothing to fear.

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