



Krosnowski & Scott LLC

Investment & Retirement Planning Specialists

ExxonMobil Savings Plan participants approaching retirement in the next 1 to 10 years.

“Here’s what you need to know about Net Unrealized Appreciation (NUA):”

Normally upon retirement many employees are encouraged to rollover Savings plan assets to an IRA to take advantage of the benefits of tax deferral. **NUA** is a Savings Plan withdrawal strategy where company stock is distributed directly to the owner of the shares in lieu of being rolled over to an IRA.

I. Qualification- In order to distribute stock from the Savings Plan under the **NUA** tax guidelines, the following events must occur:

- A. The distribution must qualify as a lump sum distribution. In order to qualify as a lump sum distribution all assets must be distributed from the Savings Plan in the same calendar year.
- B. You must be age 59½, separate service or retire from the company.
- C. All company stock categories (After-Tax, General, Before-Tax and Stock Match) qualify for NUA tax treatment.

***Before-Tax shares do not qualify.**

II. Taxation- The taxation of stock distributed under the **NUA** rules is as follows:

- A. The cost basis of the shares is taxed as ordinary income.
- B. If the shares have been held for over 12 months, the price appreciation that has occurred up to the time of distributions taxed at the long term federal capital gains rate of 15% plus applicable state taxes.
- C. Share price appreciation that occurs after the date shares are distributed from the Savings Plan up to the date when shares are liquidated are taxed at the short term capital gain tax rate (taxed as ordinary income) if the holding period is less than 12 months or long term capital gains rates if the

shares have been for 12 months or more. After maxing out your annual pre-tax contributions to the Savings Plan consider making supplemental after-tax contributions. This will enable you to increase your “tax paid balance” and increase the number of **NUA** shares you can distribute with a tax free cost basis.

Hypothetical Example: An ExxonMobil retiree has a tax paid balance of \$25,000 and owns the following shares in the ExxonMobil Savings Plan:

Cost Basis	After -Tax		Stock Match	
	Number of Shares	Total Cost	Number of Shares	Total Cost
\$10	1000	\$10,000		
\$15			1000	\$15,000
\$20				
\$25				
\$30				

If properly distributed, the retiree will have the option of rolling the shares over to an IRA or receiving the shares directly whereupon, the **NUA** tax guidelines would apply. In this example, the \$25,000 cost basis is distributed tax free. Upon liquidation, capital gains would apply to the appreciated value of the shares.

III. Tax Paid Balance- After tax contributions in the ExxonMobil Savings Plan are frequently referred by the Citistreet representatives who administer the plan as “**tax paid balances.**” If shares are distributed as **NUA**, the “**tax paid balance**” can be applied to the cost basis of the shares. This enables **NUA** shares to be distributed from the savings plan tax-free. Upon liquidation, the capital gain tax requirements still apply. Using your lowest cost basis shares will enable you to distribute the most shares using your “**tax paid balance.**”

IV. Planning Between Now and Retirement

If distributing a portion of your savings plan balance upon retirement as **NUA** shares is appealing to you, you may want to consider the following strategy:

- A. Verify your current **tax paid** balance in the savings plan.
- B. Run an ExxonMobil Savings Plan **NUA** stock distribution analysis (this is a free report we can run for you to verify which shares to consider distributing under **NUA**).
- C. After maxing out your annual pre-tax contributions to the Savings Plan, consider making supplemental after-tax contributions. This will enable you to increase your “tax paid balance” and increase the number of **NUA** shares you can distribute with a tax-free cost basis.

Summary: NUA stock distribution is a strategy that may enable you to transfer a portion of your assets from the ExxonMobil Savings Plan to a taxable account at favorable tax rates. The main benefits of this strategy are:

- Liquidity – stock shares can be immediately sold to provide ready access to cash
- If you are in a high federal tax bracket (20% plus) you can take advantage of the benefits of the lower long-term capital gains tax rate.

Please feel free to contact us if you would like us to provide you with further clarification or run a free **NUA stock distribution analysis** for you.

Sincerely,

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Financial Consultant

*We are not tax consultants, nor do we provide tax advice. Please consult with your tax consultant regarding any tax reporting questions.

P.S.- Please feel free to visit our corporate website at: **www.krosnowskiandscott.com** to view a description of free reports that are available to you, access our Budget page and data questionnaire and view educational articles we have published in the Washington Business Journal.

Opinion

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