<u>ExxonMobil 401(k) Savings Plan Net Unrealized Appreciation (NUA) Stock Distribution Update</u>

In Section A of this essay we discuss two new elements that may impact your company Savings Plan NUA stock distribution decision making process.

Section B contains a detailed review of the 401(k) Savings Plan NUA stock distribution strategy.

The following are two key issues to keep in mind when evaluating whether to receive a NUA stock distribution from your company's 401(k) Savings Plan:

<u>Section A:</u> NUA Update (September 2015)

I. <u>Company Stock Dividends NUA Eligibility</u> – In order to qualify as a NUA stock distribution a plan participant must reach a <u>triggering event</u> (such as retirement or separation of service) and they must receive a <u>full distribution</u> of <u>all 401(k) Savings Plan assets</u> in the <u>same calendar year</u> (i.e. – if after reaching a triggering event, if you receive a <u>partial</u> distribution in one year, you will then be disqualified from receiving a NUA stock distribution unless you reach another triggering event in which case your NUA eligibility resets).

<u>Exception</u>: Receiving company stock dividends from the Savings Plan is <u>not considered a distribution</u> and therefore will not prevent plan participants from receiving a NUA stock distribution.

II. <u>NUA and Retirement Plan Required Minimum Distributions (RMD)</u> – If you receive a Savings Plan NUA stock distribution during the <u>first year</u> that you receive your <u>first RMD</u> (the RMD deadline is April 1 of the following year that you turned age 70 ½). You can apply the NUA stock distribution amount toward your RMD balance for that year. This provision only applies to the first year of your RMD. In subsequent years if you have assets in the Savings Plan you will be disqualified from receiving a NUA distribution until you reach the next triggering event which would be death.

<u>Section B: NUA Review:</u>

<u>I. Background</u> - The focus of this message is to help you understand the specific issues and opportunities pertaining to employee stock distributed to you from the ExxonMobil 401(k) Savings Plan. Deciding which distribution strategy is most advantageous to your particular circumstances, needs to be grounded in an understanding of all the choices available to you. This message discusses the immediate and ongoing income tax consequences of holding your employer's stock outside of a 401(k) or IRA rollover and electing a tax strategy called Net Unrealized Appreciation (NUA).

<u>II. Definition of NUA</u> - **NUA** is an Exxon/Mobil Savings Plan stock distribution option which enables the plan participant to take possession of Exxon/Mobil shares upon or after retirement without rolling the shares over to an IRA. Electing **NUA** tax treatment gives investors the unique opportunity to convert taxable income into a long-term capital gain. This is accomplished by selecting to create NUA on the appreciated value of company stock that is in excess of what you paid for the stock.

Receiving an NUA stock distribution may have preferable tax and estate planning implications for ExxonMobil employees. To receive an NUA stock distribution, the withdrawal from the Savings Plan must qualify as a **lump-sum**. A distribution will qualify as a lump-sum if it is on account of: **death, attainment of age 59 ½, disability, separation from service or retirement**. Additionally, to qualify as an NUA stock distribution, **all** of your Savings Plan assets must be distributed within the **same calendar year.**

III. Stock Distribution Priorities –

A. **Liquidity**- Your "tax paid" or (pre-1987, post 1986) after tax balance can be used to provide liquid cash upon the distribution of your Savings Plan (if you roll your pre-tax assets to an IRA). It can also be applied to the cost basis of a portion of your NUA shares. This may enable you to distribute stock shares from the Savings Plan **cost basis tax free** (these are known as "tax paid" shares).

B. **Estate Planning**- As of 2017, if your assets are properly titled, both you and your spouse can each pass on $5,490,000 to your beneficiaries' estate tax free. This figure is known as your estate tax exclusion amount. An NUA stock distribution may provide you with greater flexibility to "**equalize**" assets between you and your spouse. This may enable you to avoid unnecessary estate taxes. This may also enable your beneficiaries to inherit stock assets with a "step-up" in basis. Inherited IRA assets are subject to ordinary income taxes. This could have significant tax implications for your beneficiaries.

C. **Tax Planning**-The benefit of rolling over pre-tax Savings Plan assets to an IRA is tax deferral. Income distributions from an IRA are taxed as ordinary income. NUA enables investors in higher income tax brackets to take advantage of more favorable long term capital gains tax rates.

Electing to receive NUA stock distributions may be very advantageous for investors who may otherwise have larger IRA balances. Upon turning age 70½, investors are required to receive minimum IRA distributions (RMD). If a portion of their assets are transferred into a taxable account this would reduce the amount of assets that may be subject to ordinary income taxes.

D. **Triggering Events/Savings Plan Age 55 Rule**- NUA stock distribution procedures can be complicated. One of the purposes of this message is to provide some clarification regarding triggering events (i.e. qualify as a lump sum distribution). If you retire at age 55 or older and you have not taken a distribution from the ExxonMobil Savings Plan, you can receive an NUA stock distribution which is not subject to the 10% premature withdrawal penalty. A further explanation of the age 55 rule is discussed in Example #2 below.

E. **Hierarchy of assets distributed** – It is very important to be aware of the priority order that assets are distributed from the ExxonMobil Savings Plan. The following is the order that assets are distributed:

1) All tax paid balances are distributed first beginning with pre-1987 after-tax assets.
2) From the investment categories: a) after-tax common assets are distributed first, b) then the five after-tax stock, bond and balanced units are distributed and c) after-tax company shares are distributed last.
3) The next assets to be distributed are the pre-tax assets beginning with common assets, then the investment fund units and then company shares.

If you have previously taken a distribution from the Savings Plan and you wish to receive an NUA stock distribution, you must wait until the next triggering event. For example, if you received a partial withdrawal from the Savings Plan at age 57, you cannot request an NUA distribution until you reach age 59 ½. In this case age 59 ½ would be the next triggering event.

Think hard and think twice before you decide to take a withdrawal from the Savings Plan prior to receiving an NUA stock distribution. Doing so may exhaust your after-tax balances and jeopardize your ability to receive an NUA stock distribution of "tax-paid" shares at a later date.

The ability to combine distribution methods provides corporate employees who retire and would like to receive retirement plan income withdrawals before age 59 ½ with a variety of options.

Example #1- A corporate employee retires at age 56 and rolls over his or her pension lump sum to an IRA. The employee could also rollover his or her Savings Plan balance to an IRA. If they needed to receive penalty free IRA withdrawals, they could do so via **IRS code 72(t).** The only drawback of this IRA distribution method is that it requires the distributee to withdraw the same amount allowed by the calculation schedule annually for five years or age 59 ½ whichever is greater.

Example #2- In the same situation as above, the employee could also leave their assets in the Savings Plan and receive annual penalty free withdrawals via the **age 55 rule**. This rule states that heritage Exxon and Mobil employees can receive penalty free withdrawals from the Savings Plan variable in amount from year to year, one to two times annually respectively (pre-tax assets are subject to ordinary income taxes, after-tax assets are not taxable). The employee would still have the ability to: **A**. receive IRA distributions from the pension lump sum rollover under the 72(t) tax guidelines or wait until they reach age 59 ½ and **B**. be able to receive an NUA stock distribution once they reach age 59 ½ or older (i.e. reaching the next triggering event after taking a non-NUA withdrawal from the Savings Plan).

Example #3- If a retiree, who is age 59 ½ or older, receives a distribution from the Savings Plan, they must withdraw their full balance during that calendar year in order to utilize NUA. If they do not, then they have to wait until the next triggering event to receive an NUA distribution (i.e.- death or disability, since they have already retired or separated from service and attained age 59 ½).

In this way, retirees may be able to have their retirement cake (have access to various retirement plan withdrawal alternatives before age 59 ½) and eat it too (maintain the ability to take advantage of the benefits of the other NUA stock distribution method at a later date).

Please let us know if you would like us to generate an NUA stock distribution analysis report to assist you in mapping out retirement plan income distribution strategies.

Sincerely,

Andrew Krosnowski & Melissa Scott-Paine

<u>Glossary of key terms</u>-

"<u>Tax-paid balance</u>"- the pre-1987, post-1986 after-tax balances in the Savings plan.

"<u>Tax-paid shares</u>"- NUA stock shares distributed from the Savings Plan cost basis tax free.

<u>IRS code 72(t) IRA income distributions</u>- an IRS tax code which allows individuals to receive penalty free IRA withdrawals prior to age 59 ½ if they distribute substantially equal periodic payments (allowable under the approved income calculation formulas) for 5 years or age 59 ½ whichever is further.

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