

When you're ready to retire What will your company stock be worth? (after taxes?)

You may be one of the estimated 20 million Americans holding company stock in their workplace retirement plans. Over the years, through time and tax deferral your company stock may have appreciated dramatically in value.

When you decide to take a distribution of your company stock, it will be subject to income taxes. So the real value of your stock is what is left after taxes. The federal income tax rate that will apply can be affected by the manner in which you distribute it. In the following hypothetical example, the stock was distributed in cash, and the owner was over 55 when he left his job.¹

This hypothetical example is for illustrative purposes only. Does not include state and local taxes. Actual tax liability depends on individual situation and tax rate at time of distribution.

TAX EFFECT ON CASH DISTRIBUTION OF COMPANY STOCK

Cost basis ² of company stock	\$20,000
Appreciated value at time of cash distribution	+ \$80,000
Total value at distribution	\$100,000
Ordinary federal income tax @ 28%	- \$28,000
After-tax value of company stock	\$72,000

THE NUA RULE – A TAX SAVINGS RETIREMENT STRATEGY (Net Unrealized Appreciation)

Hypothetical example is for illustrative purposes only and is not indicative of the performance of any specific investment. Assumes the following: company stock was distributed in kind as part of a lump-sum distribution; all non-company stock assets were rolled over to an IRA to retain their tax-deferred status; flat federal ordinary income tax rate of 28%; long-term capital gains tax rate of 15%; owner was over age 55 at time of separation from service.¹ State and local taxes are not taken into account. Actual tax liability will depend on your individual tax situation and the tax rates in effect at the time of distribution. The sale of stock may be subject to brokerage commissions or fees. Please contact your workplace retirement stock purchase plan administrator or investment professional regarding the sale of company stock.

1. If you were under age 55 when you separated from service, your distribution may also be subject to a 10% penalty.
2. Cost basis is generally the amount you paid for the stock.

If you hold highly appreciated company stock and anticipate taking distributions, you may be able to benefit from an IRS rule giving special tax treatment to a portion of the appreciated value of your company stock.

In very broad terms, when you take in-kind distributions of company stock from your employer-sponsored plan as part of a lump-sum distribution, you pay federal ordinary income tax only on the cost basis at that time. When you liquidate the stock, the difference between the cost basis and the value of the stock at the time it is distributed in-kind – net unrealized appreciation – is taxed at the long-term capital gains rate, which is currently 15%. Here's a hypothetical example:

TAX EFFECT ON DISTRIBUTED COMPANY STOCK UTILIZING THE NUA RULE

Cost basis ² of company stock	\$20,000	x 28% tax rate =	\$5,600
NUA at time of liquidation	+ \$80,000	x 15% tax rate =	\$12,000
TOTAL VALUE AT LIQUIDATION =	\$100,000	TOTAL TAXES	- \$17,600
After-tax value of company stock =	\$82,400		

The after-tax value of the stock at distribution is \$10,400 greater when using the NUA rule. This represents additional money that can help build your retirement savings. So, the real value of your company stock when using the NUA rule may be measured not just in terms of the tax savings, but in terms of the potential future value of those invested savings as an income source.

NOT FDIC INSURED • MAY LOSE VALUE
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How can you keep your non-company stock assets growing tax deferred?

When considering an NUA strategy, one of the biggest concerns is having to take a distribution of the whole retirement plan account balance all at once and losing tax-deferred growth on the non-company stock assets. After all, managing money for maximum growth is the cornerstone of smart income planning.

A **Rollover IRA** may be one solution. You can roll over non-company stock assets – typically mutual funds – to an IRA, where they may continue to grow tax deferred.

The Rollover IRA opens up another potential opportunity for tax-advantaged saving – a **Roth IRA**. You can convert your Rollover IRA assets to a Roth IRA, provided you meet the requirements for eligibility and have the resources to pay the income taxes on such a conversion.

Your advisor can help you weigh various options and determine which may be most appropriate for your own situation. In any case, however, remember that any tax savings you get from utilizing the NUA strategy represents additional money that you can save and invest for your retirement.

Who would benefit most from adopting the NUA rule?

An NUA strategy will be of maximum benefit to those who:

- Own a large amount of highly appreciated company stock
- Will be in a high tax bracket at the time they liquidate retirement assets for income
- Can comfortably afford the taxes on the cost basis of the stock distributed in-kind
- May wish to access their retirement assets before age 59½

What requirements and other factors should you consider?

Requirements

In order to utilize the NUA rule, certain requirements must be met:

- You must be eligible to take a lump-sum distribution from your plan – usually separation from employment, disability, or attaining 59½ years of age.³
- You must take a lump-sum distribution of your entire plan account balance, including company stock and other assets – typically mutual funds.
- The company stock must be distributed in-kind. (Check with your workplace retirement plan on the ability to take an in-kind distribution of stock.)
- You must take the distribution of the company stock directly from your workplace plan. The NUA rule cannot be used if you roll the stock over to an IRA and then liquidate it.
- You must pay federal ordinary income tax on the cost basis of the stock distributed in-kind in the year in which it is taken. However, you can hold the stock in a brokerage account and sell it at any time, paying long-term capital gains tax on the net unrealized appreciation when you liquidate the stock. Any additional appreciation realized after the in-kind distribution will be subject to short- or long-term capital gain taxes, as applicable. The sale of stock may be subject to brokerage commissions or fees. Please contact your investment professional regarding the sale of company stock.

Market Value Fluctuation

As with all investments, the value of your company stock will fluctuate in response to market conditions. The tax advantage of the NUA rule could be reduced or possibly even wiped out if your stock loses value before it is liquidated or if you are in a lower federal income tax bracket at the time of liquidation.

Timing

The decision to utilize the NUA rule involves careful analysis of several interrelated factors, such as age, retirement date, total assets, tax bracket, appreciation of company stock, and estate planning. Therefore, it is essential to evaluate this strategy with your tax advisor and/or financial advisor well ahead of the time you might utilize it.

We're here to help

With your advisor and Fidelity, you can be sure of having access to the expertise you need for help in deciding whether and how an NUA strategy might fit in with your overall retirement income planning.

- One of the most knowledgeable and experienced firms in the retirement industry
- A full line of proven diversified Fidelity Advisor mutual funds and IRA investment products
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3. In certain circumstances, distributions taken solely as a result of attainment of age 59½ are not considered lump-sum distributions.

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