Net Unrealized Appreciation (NUA)

Leaving a company or nearing retirement and own company stock in your 401(k) or other employer-sponsored retirement plan? You may want to consider the NUA strategy.

KEY BENEFITS

Pursuing the NUA strategy can:

- Potentially reduce the impact of income taxes on your investments
- Provide tax advantages for your beneficiaries
- Allow you to maintain the tax-deferred status of other employer-plan investments by rolling them over to an IRA

POTENTIAL CANDIDATES FOR AN NUA STRATEGY

The strategy may be right for individuals who:

- Are nearing retirement age and own company stock in their 401(k) or other employer plan
- Have highly appreciated company stock in a former employer's retirement plan and are in a high tax bracket
- Are close to retirement and need an income distribution strategy
- Have inherited an employer plan that includes company stock

The NUA strategy may be beneficial to individuals in higher tax brackets who own company stock, which has appreciated since it was purchased in their employer plan.

HOW AN NUA STRATEGY WORKS

Here is how the NUA strategy works:

Request a **lump sum distribution** of the employer stock from your plan[1] → GOES IN A TAXABLE ACCOUNT—Pay ordinary federal income tax on the cost basis—or average cost—of the stock (provided by your plan)

When you sell the shares of company stock, you are not required to pay ordinary federal income taxes on the NUA (the difference between the current value of the employer stock and the original cost of the shares) at the time of distribution. You will, however, pay long-term capital gains tax—and possibly Medicare tax—on that amount and any additional appreciation when you sell the shares. Compare the maximum 20% long-term capital gains rate plus 3.8% Medicare tax on unearned income versus a top income tax rate of 37%.[2]

NUA EXAMPLE

The following example shows a 60-year-old investor with stock in an employer plan and assumes the investor will hold the stock for an additional 10 years.[3]

	Using NUA—Tax Paid With Outside Assets	Not Using NUA—IRA Rollover
Value of employer stock at distribution	$500,000	$500,000
Cost basis	$200,000	$200,000
NUA	$300,000	$300,000
Total taxes on initial distribution at 37% ordinary income tax rate	$74,000	$0
Account value before federal income taxes in 10 years at 5% annual growth rate	$814,447	$814,447
Future ordinary federal income taxes on final sale at 37% ordinary income tax rate	$0	$301,346
Future capital gains tax (20%) and Medicare tax (3.8%) at final sale	$146,238	NA
Future account value after taxes	$668,209	$614,009
Potential increase in wealth due to NUA treatment	$54,200	NA

BENJAMIN F. EDWARDS®
INVESTMENTS for GENERATIONS®

HOW A FINANCIAL PROFESSIONAL CAN HELP

Conduct an NUA analysis

Your financial professional can run an analysis to illustrate the potential tax consequences of an NUA strategy under different scenarios. You should also consult your tax or legal advisor before pursuing the NUA strategy.

Open accounts to meet your needs

If necessary, your financial professional can help you open a taxable account for your employer stock, as well as an IRA to roll over any remaining assets in your employer plan.

Review and track performance

You will receive a consolidated account statement to make it easier to review and track your performance. Your financial professional can also help evaluate your asset allocation and investments on a regular basis.

Provide overall retirement planning

Your financial professional can help you determine your income needs in retirement and develop a plan to help you meet your goals.

Keep in mind that your employer stock can decline in value significantly between now and your retirement date. The benefit of the net unrealized appreciation rules must be balanced against the risk that the stock will decline in value. If appropriate, there are also hedging strategies that may be used to help protect against declines in the value of your employer stock.

TALK TO YOUR FINANCIAL PROFESSIONAL TO FIND OUT MORE

In order to benefit from the NUA strategy, each step must be taken in a specific order. Also, please note that tax laws are subject to change. You should consult with your tax or legal advisor before taking any distributions from a retirement plan. Keep in mind that you will incur an ordinary federal income tax obligation on the cost basis of the stock in the year of the distribution. You will also lose the benefits of tax-deferred growth on the shares of stock not rolled over to an IRA. However, the lower income tax rate on the sale of securities of the non-retirement account may be more beneficial.

Your financial professional can run an analysis to illustrate the impact of the NUA strategy on your retirement savings, as well as help you open any new accounts, if necessary, to receive plan distributions. Contact your financial professional to find out if the NUA strategy may be appropriate for you.

[1] The lump sum distribution of company stock should be requested in certificate form. For non-employer stock, you may elect to leave assets in the plan, rollover to an IRA, rollover to your new company plan, or take a distributable distribution. A lump sum distribution is specifically defined by the Internal Revenue Code and qualifies for more favorable tax treatment. A lump sum distribution is: 1) made in one taxable year, 2) consists of the balance to the credit of an employee, 3) payable in the event of the employee's death, after the employee reaches age 59½ or due to separation from service and 4) is made from a qualified pension, profit sharing or stock bonus plan.

[2] The top federal tax rate as of November 2021. State taxes may also apply.

[3] This example is for illustrative purposes only and assumes that the distribution meets all the requirements of a lump sum distribution and is eligible for the favorable tax treatment under the Internal Revenue Code. The example also assumes that all taxes are paid with outside assets and a future ordinary federal income tax rate of 37% and 20% capital gains tax at the final sale. The example also assumes a 3.8% Medicare tax on earned income (e.g., capital gains and qualifying dividends) at the time of final sale. Clients in lower tax brackets may not be subject to this Medicare tax. This assumes no distributions are made during the years of the analysis. In addition, the "Not Using NUA" column does not take into account any required minimum distributions that may occur after the owner of the employer stock turns age 72.

PER___5886_FS__NUA Investor Fact Sheet__1121

2022-2941 | Exp 9/30/2025