CUNA MUTUAL GROUP

Net Unrealized Appreciation:

Employee Stock Distributions

OPPORTUNITY CONCEPT

- Employees with highly appreciated stock held in Employer Sponsored Qualified Plans may have a substantial opportunity to rollover the stock in-kind and pay taxes owed at capital gains rates.
- This strategy will serve to diversify company stock concentration, distribute proceeds from an Employer Plan, and observe favorable tax treatment, if performed correctly.

IDEAL CUSTOMER

- Employees who hold highly appreciated, low-cost basis concentrations of their own employer stock in a tax-deferred Employer Retirement Plan, and who would prefer to take the opportunity to pay capital gains rates rather than ordinary income rates on those gains.
- Older clients, eligible for rollover (death, disability, separation from service, age 59 1/2), in need of diversification, especially if nearing age when RMDs will be required.

DESCRIPTION

- The Net Unrealized Appreciation strategy permits an employee to claim capital gains treatment of their appreciation under defined conditions.
- The employee will exercise a distribution in kind of their shares to a non-qualified brokerage account. They will owe ordinary income tax on just the cost basis of the shares they transfer. They can then immediately sell any amount of those shares and recognize long-term capital gains rates on the appreciation.
- Since the proceeds are then held in a non-qualified account and may not be needed for some time, many clients would prefer to reinvest all or a portion of their balance into a new deferred annuity contract to resume tax deferral on gains from that point.
- We encourage obtaining the Summary Plan Description for the Employer Retirement Plan prior to completion of any new account application to determine if available for rollover. It will be necessary to know cost basis of all shares.

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» Since this strategy requires a transfer of equity shares in-kind, it must first transfer to a non-qualified brokerage account. Shares must be sold within the brokerage account and are then available for diversification reinvestment as non-qualified assets.

» Considerations:

1. The equity shares must be transferred in kind to the non-qualified brokerage account. The strategy does not apply to shares liquidated prior to distribution within the employer plan account.
2. Ordinary income taxes are owed on the cost basis of any shares distributed. The strategy has the most benefit for low cost basis, high appreciation shares. Client's must know cost basis for their shares but can select just those shares with the lowest cost basis, for distribution.
3. The entire balance of the employer retirement plan account must be distributed within the same tax year, but not necessarily to the non-qualified brokerage account. The balance could be rolled over to a qualified IRA account if the client would like to continue the existing tax deferral on other investments.

IMPLEMENTATION PLAN

YOUR PRODUCT CONNECTION:

We provide annuities that can be utilized for either the rollover portion to an IRA, or for the non-qualified portion distributed and diversified.

TIPS FROM NEW BUSINESS:

Complete a transfer of existing equity shares to a non-qualified brokerage account. Equity shares cannot be transferred directly to an annuity. Once transferred in kind to a non-qualified brokerage account and liquidated, then apply for an annuity with the non-qualified proceeds after liquidation, by submitting Application and related paperwork including a Transfer/Direct Rollover form.

Complete an application for direct rollover for invested positions that will not be a part of the Net Unrealized Appreciation strategy, by submitting an IRA Application and related paperwork including a Transfer/Direct Rollover form.

For personal assistance on optimal resources available to elevate your value, call your CUNA Mutual Group Annuity Sales Team:

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