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Tax & Estate Planning for Your Retirement Savings

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GUEST IRA EXPERT: Thomas J. O'Connell International Financial Advisory Group Rockaway, NJ

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The "Art and Science" of NUA

The net unrealized appreciation (NUA) tax strategy is more than a mathematical computation and absent-minded, button-pressing transaction. Every situation is artfully unique. Each NUA opportunity presents a series of questions and possibilities that must be analyzed independently to identify a positive tipping point exclusive to that occasion. With that said, bulging market growth over the past decade, combined with a wave of employees leaving their jobs, have created a perfect storm of opportunity for tax planning with company stock in a 401(k) or employee stock ownership plan (ESOP). Additionally, many plan participants may not even realize their 401(k) account balances have grown exponentially. If ever there was a time for mastering the nuances of the NUA tax break, it is now.

The Importance of Understanding and Recognizing NUA

When a sizeable retirement plan rollover opportunity presents itself, there is, unfortunately, a high potential for certain elements to be overlooked. As such, proceeding with a plan-to-IRA rollover without a full assessment of the situation could be disastrous. Haste makes waste. While most advisors understand the pros and cons of a rollover, there is one analysis that often goes unnoticed — NUA. Not considering

NUA when evaluating the benefits of a plan-to-IRA rollover is abject failure — *an oversight that could even expose an advisor to liability*. Before submitting any paperwork to a plan administrator requesting a rollover, one must understand the basic "art and science" of NUA.

What is the NUA tax break, i.e., the science? It is the opportunity to pay tax at long-term capital gains rates on the appreciation of company stock versus paying ordinary income rates on that growth. While the tax savings can be significant, one misstep, one broken beaker in the science lab, and the NUA opportunity will be forever lost.

When a person owns company stock in her 401(k) plan, a possible NUA opportunity exists. (Company stock is only eligible for NUA if it is held in a qualified plan.) This company stock can be individual shares or a stock fund that is converted to shares upon distribution. If there is no company stock, then there is no NUA. If company stock appears on a plan statement, it is imperative to work through a basic analysis to determine if NUA is, indeed, an option.

NUA Analysis and Process

1. Is the Stock Highly Appreciated?

Upon identification of the company stock, the next detail to pin down is the amount of appreciation.

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