THE ESOP DISTRIBUTION PLAYBOOK

Your ESOP may be your largest asset. Here's how to help plan for it.

A guide to the elections, windows, and sequencing decisions that helps shape what your company stock may be actually worth to you in retirement.

INSIDE THIS GUIDE

FOREWORD · A NOTE FROM BLUE VALLEY WEALTH

Why we wrote this playbook.

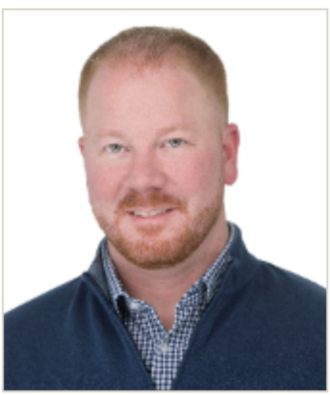
Dear Reader,

Blue Valley Wealth Management helps ESOP participants, employee-owners, and pre-retirees in Kansas City turn complex retirement decisions into clear, workable plans. We guide the choices that quietly help determine whether a 30-year career at an employee-owned company becomes a 30-year retirement — Social Security timing, concentrated stock, Net Unrealized Appreciation (NUA), withdrawal sequencing across ESOP / 401(k) / IRA, and coordination with your tax and estate team.

For many participants, company stock is the largest asset on the balance sheet. The decisions around diversification, rollovers, and distributions are often irreversible and highly consequential.

> "This playbook is the conversation I wish someone had with every ESOP participant before they signed a single form."

The following pages walk through the elections, windows, and sequencing decisions that help shape what your company stock is actually worth to you in retirement — with a bias toward what you can do, and when.



Brian Lore

CIMA® · AIF® · MANAGING PARTNER

BASED IN	Overland Park, Kansas — serving Kansas City & the broader Midwest
FOCUS	ESOP participants and pre-retirees with significant company stock
APPROACH	Fiduciary guidance, coordinated with your CPA and estate counsel

WHO THIS PLAYBOOK IS FOR

- You are an ESOP participant approaching retirement or a distribution event.
- You want a clear plan before making decisions that cannot be undone.
- You're unsure whether your current advisor understands ESOP distributions.
- Company stock makes up a significant share of your retirement savings.
- You've been told to "just roll it over" without anyone explaining the alternatives.
- You want a second set of eyes before you sign your distribution form.

SECTION 01 · BEFORE YOU DECIDE

Considerations to weigh before any decision.

An ESOP distribution may be one of the most consequential elections a participant will make. The list below highlights some of the common pitfalls when these decisions go unplanned.

HYPOTHETICAL CASE

A long-tenured employee approaches an ESOP distribution. Several elections are due in a short window, each with different long-term implications. Without a coordinated plan, important details may be overlooked.

01 **Missing an election window.** Diversification eligibility, lump-sum timing, and the rollover clock are typically time-bound under federal rules and plan provisions— a missed window may limit available options.

02 **Triggering avoidable income recognition.** Distribution timing can interact with the rest of your tax picture; without modeling year-of and adjacent years, income can stack unnecessarily.

03 **Locking in an irreversible choice.** The election on a distribution form may be difficult or impossible to change once submitted, depending on plan rules.

04 **Treating the ESOP in isolation.** Distribution choices can affect Social Security timing, RMDs, and healthcare bridging — and are affected by them in return.

05 **Skipping a qualified second look.** A professional review before the form is signed surfaces considerations a participant working alone may not weigh.

THE OTHER SIDE

What a coordinated *review walks through.*

i **REVIEW**
Plan rules, vesting status, and the windows that apply to your account.

ii **MODEL**
Year-of and adjacent-year tax impact, including any NUA eligibility.

iii **COORDINATE**
Sequencing with Social Security, RMDs, and the rest of the portfolio.

iv **DECIDE**
Election made with full context, on a documented timeline.

Educational framework only — not a recommendation.

Educational content only. Not tax, legal, or investment advice. Federal ESOP and distribution rules referenced under IRC §401(a)(28) and §402(e)(4). Source: irs.gov/retirement-plans/employee-stock-ownership-plans-esops. Plan-specific terms, timing, and election options are defined in your Summary Plan Description. Consult your own advisors before making any distribution election.

SECTION 02 · WINDOWS YOU CAN'T REOPEN

The age 55 & 60 diversification windows.

Federal law allows certain participants the right to diversify starting at age 55 — but this right is time-limited, can be overlooked, and generally must be exercised during the applicable election window and cannot typically be applied retroactively if missed.

AGE 55 – 59

25%

The first five-year window

You may diversify up to 25% of the total shares you have ever held. This window spans your first five years of eligibility.

AGE 60 +

50%

The sixth-year expansion

In the sixth year, your limit rises to 50% of shares ever held. This is your largest single opportunity to reduce concentration.

FACTORS THAT FAVOR DIVERSIFYING

- Stock is a large percentage of your total net worth
- Company is in a volatile or cyclical industry
- Ample savings in 401(k), IRA, or other accounts
- Planning to retire before age 65 and need income
- Want to bridge income before Social Security

FACTORS THAT FAVOR HOLDING

- Company stock has consistently outperformed
- You plan to work until at least age 65
- ESOP is less than 20% of your nest egg
- Strong, consistent company fundamentals
- Other sources of retirement income in place

When your ESOP is a significant share of your savings, these windows shouldn't be missed. Scan the QR on page seven to request your personalized ESOP timeline.

IF YOU'RE 50 – 54

Start modeling. Know your vesting schedule, compute what 25% of shares represents in dollars, and identify the account that could receive a diversified rollover.

IF YOU'RE 55 – 59

Your first window is open. Decide annually whether to diversify, hold, or partially move — based on concentration, retirement horizon, and market conditions.

IF YOU'RE 60 +

Your largest single window is available. If diversification is on the table, the sixth year is typically the year to act meaningfully.

Percentages reflect federal minimum requirements under IRC §401(a)(28). Source: irs.gov/retirement-plans/employee-stock-ownership-plans-esops. Your plan's specific diversification terms, timing, and installment options are defined in your Summary Plan Description. The above are general considerations, not recommendations.

SECTION 03 · THE NUA DECISION

The election that can shape your tax future.

Your distribution election involves several decisions - often presented simply - but the choices you make can shape your taxes for years.

OPTION I.
TAKE THE CASH

HOW IT'S TAXED

Full amount taxed as ordinary income in the year you receive it.

WHEN IT MAKES SENSE

Rarely. Only if you need the cash immediately and have no rollover options.

> **THE TRAP**
>
> 20% federal withholding is mandatory. 10% early-withdrawal penalty under 59½ (Rule of 55 may exempt separation at 55+).

OPTION II.
ROLL TO AN IRA

HOW IT'S TAXED

Nothing now. Taxed as ordinary income when you withdraw in retirement.

WHEN IT MAKES SENSE

The default choice. Defers all taxes and lets the balance keep compounding.

> **THE TRAP**
>
> Any shares rolled in lose NUA eligibility permanently. If your stock appreciated a lot, rolling everything forfeits that advantage.

OPTION III.
ELECT NUA*

HOW IT'S TAXED**

Shares go to a taxable brokerage account. Cost basis taxed as ordinary income now; appreciation taxed at capital gains when sold.

WHEN IT MAKES SENSE

When appreciation is large relative to cost basis, and you want that growth taxed at capital gains rates.

> **THE TRAP**
>
> NUA is all-or-nothing — the entire employer-stock balance must leave the plan in a single tax year, or the benefit is forfeited.

NET UNREALIZED APPRECIATION · IRC §402(E)(4)

How the IRS splits one share of your company stock

Normally, everything leaving a pre-tax plan is taxed as ordinary income. NUA is a specific exception for employer stock. When shares are distributed in kind to a taxable brokerage account, the IRS splits the value into two pieces and taxes each one differently.

COST BASIS

TAXED NOW

At ordinary rates, the year the shares leave the plan.

▶

APPRECIATION

TAXED LATER

At long-term capital gains rates, only when you sell the shares.

Tax rates reflect 2026 federal brackets (IRS Rev. Proc. 2025-32). Source: irs.gov/pub/irs-drop/rp-25-32.pdf. State taxes are not reflected and could significantly affect outcomes. NUA eligibility requires a qualifying lump-sum distribution within a single tax year. Educational content, not tax or financial advice. *Qualifying for NUA typically requires a triggering event (such as separation from service) and distribution of the plan balance within a single tax year. Not all distributions or plans are eligible. **NUA treatment applies only to employer stock distributed in-kind as part of a qualifying lump-sum distribution and may not be appropriate for all investors.

SECTION 04 · PUTTING IT ALL TOGETHER

Your ESOP timeline at a glance.

Your ESOP distribution is not like withdrawing from a 401(k). Sequencing the ESOP, IRA withdrawals, and Social Security timing creates a compounding effect across a retirement horizon.

AGE 55
DIVERSIFY · RULE OF 55

Up to 25% diversification begins · Rule of 55 available if separating.

AGE 60
EXPANDED WINDOW

Up to 50% diversification in the sixth year of eligibility.

SEPARATION
60-DAY ROLLOVER CLOCK

Window to roll to an IRA without tax.

ELECTION YEAR
NUA LUMP-SUM DEADLINE

All distributions must occur in one tax year for NUA to qualify.

DISTRIBUTION SEQUENCING

SOURCE	TAX TREATMENT	TIMING
ESOP (NUA)	Capital gains rates	Low-income year
ESOP (Rollover)	Tax-deferred growth	Withdraw as needed
401(k) / IRA	Ordinary income	RMD-driven
Social Security	Partially taxable	Consider delaying to 70

RETIREMENT PLANNING CHECKLIST

- ✓ Model income across all accounts with sequencing in mind
- ✓ Know your vesting and diversification dates
- ✓ Run the NUA vs. rollover math with a financial advisor
- ✓ Model Social Security timing (delaying to 70 = up to 24% more)
- ✓ Review beneficiaries on every account
- ✓ Plan the 55–65 healthcare bridge before Medicare

RETIREMENT INCOME CONSIDERATIONS TIMELINE

STEP 01

Draw from taxable first. Use brokerage funds or NUA shares in low-income years to stay in lower brackets.

STEP 02

Tap tax-deferred next. IRA and 401(k) withdrawals when ordinary income is manageable — ideally before RMD age.

STEP 03

Delay Social Security. Each year past full retirement age increases the benefit by approximately 8% up to age 70 (per ssa.gov).

Federal minimums under IRC §401(a)(28). Source: irs.gov/retirement-plans/employee-stock-ownership-plans-esops. And §402(e)(4). Source: irs.gov/forms-pubs/about-publication-575. Your plan may set different terms. Timeline assumes separation from service after age 55. Social Security figure per ssa.gov. Educational only.

SECTION 05 · YOUR NEXT STEP

You've seen how different decisions can impact outcomes. Let's help make sure yours aren't on the list.

A complimentary 30-minute conversation about your account, your timeline, and the decisions in front of you — by phone, video, or in person.

WHAT YOU'LL WALK AWAY WITH

- A personalized timeline of your distribution windows and deadlines
- A clear picture of what each option could cost you in taxes
- An initial assessment of your distribution options and potential strategies
- A view of how all your retirement accounts work together — not just the ESOP in isolation

SCHEDULE YOUR REVIEW

A 30-minute ESOP distribution review.

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