ERISA Advisory Group

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FOR PLAN PARTICIPANTS

Your ESOP, *In Plain Terms*

Your annual statement just arrived. Here's how to read it - and what happens next.

Your ESOP statement just landed, and it raises real questions: what does this number actually mean, when can I get it, and how much will I really see? Here's how to read your statement and what happens next - in plain terms.

START HERE: WHAT YOUR STATEMENT IS TELLING YOU

→ **Your vested balance is what's yours.** That's the amount you'd actually receive - the vested portion is locked in and can't be taken back, even if you leave the company.

→ **The share price isn't set by the company.** It comes from an independent annual appraisal at fair market value, reviewed by your trustee - not a number your employer picks.

→ **A balance is not a bank account.** It turns into cash through a specific distribution process (below), not on demand. Knowing that timeline is the key to planning.

→ **Year-to-year changes are normal.** Your balance moves with company contributions, newly allocated shares, and the updated share value - it can rise or fall.

FROM YOUR BALANCE TO A PAYCHECK

Your statement shows a balance; turning it into retirement income follows a specific process.

When payments start. Triggered by retirement, death, disability, or leaving the company. For retirement, death, or disability, payments generally begin the plan year after separation; for other terminations, up to five years later.

How you get paid. The company repurchases your vested shares at fair market value and pays in installments - up to five years, or up to ten if your balance exceeds the 2026 IRS threshold of $1,455,000. Cash is the norm; stock distributions are rare in closely held companies.

How it's taxed. Taxed as ordinary income; a 10% penalty may apply under age 59½ without an exception. Roll the distribution into a traditional IRA or qualified plan within 60 days to defer tax.

A quick example

Jane retires at 65 with a $400,000 vested account. The company repurchases her shares at fair market value. Because her balance is under $1,455,000, she's paid in five equal annual installments of $80,000 - and she may roll payments into a traditional IRA to defer tax.

Net Unrealized Appreciation (NUA)

If you take a lump sum of actual company stock, an NUA election can tax the appreciation at the lower long-term capital gains rate when you sell. Whether it helps depends on your situation - ask your tax advisor.

Your right to diversify at 55 + 10

At age 55 with ten years in the plan, you can move part of your account out of company stock: up to 25% in years 1–5 and up to 50% total in year 6, via other investments, cash, or a 401(k) transfer.

HOW THE COMPANY FUNDS YOUR PAYOUT

Your company doesn't just write a check from spare cash. Federal law gives you the right to have your shares repurchased at fair market value - the repurchase obligation. How well your company plans for it affects whether you're paid on time and in full.

The bottom line: your core protections haven't changed. An independent fiduciary reviews the appraisal every year to confirm the value on your statement is genuine - not a number chosen for convenience.

Have questions about your ESOP?

No question is too basic. Reach ERISA Advisory Group for help with your account, distributions, or diversification rights:

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