RHAME & GORRELL
WEALTH MANAGEMENT

Navigating Early Retirement at ExxonMobil: *A Strategic Planning Guide*

ExxonMobil Early Retirement Strategies: Accessing Retirement Funds Before 59½

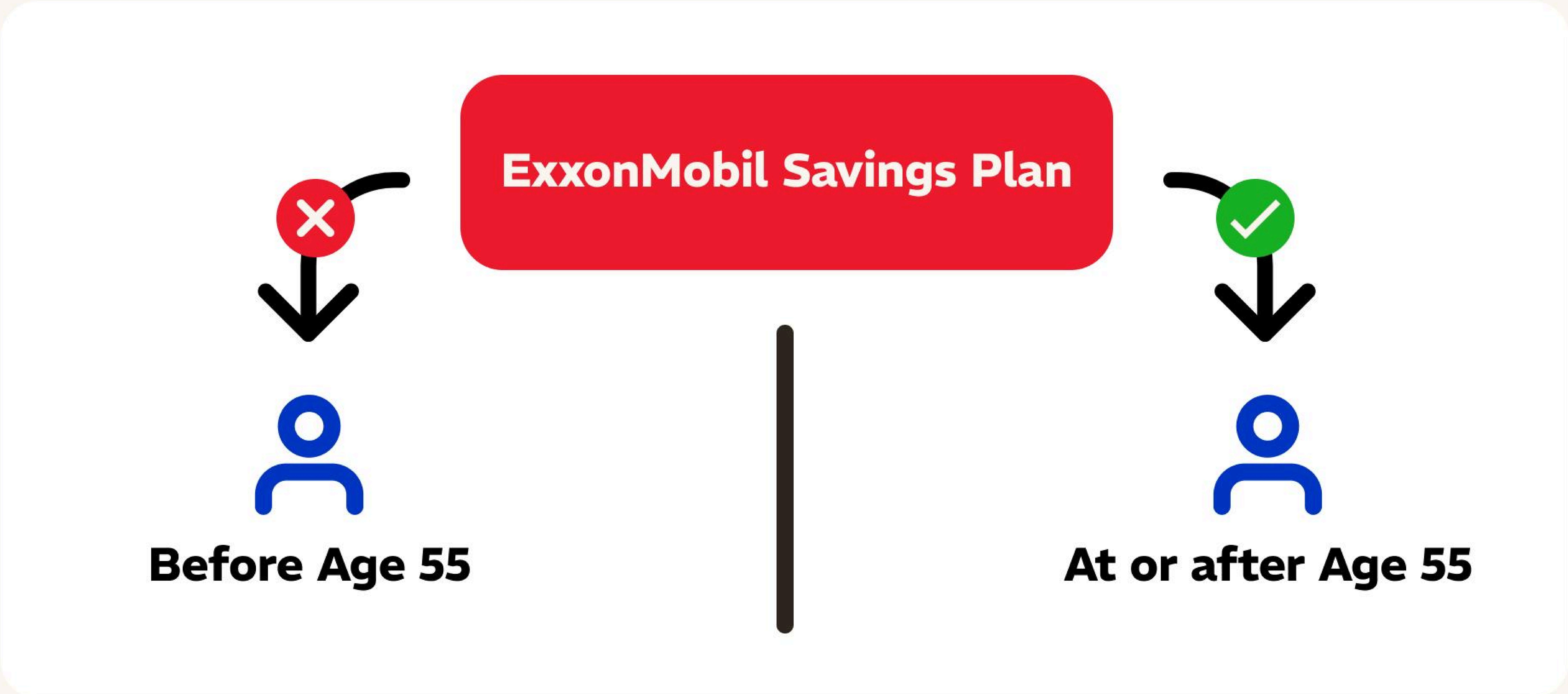
ExxonMobil employees often find themselves financially ready to retire in their mid-50s, even though IRS rules discourage tapping retirement accounts before age 59½. In fact, ExxonMobil considers employees with at least 15 years of service who leave the company at age 55 or above as officially eligible for retiree status - a policy often referred to as the "55 and 15 rule."

However, retiring at 55 means bridging the income gap to 59½ without incurring the IRS's 10% early withdrawal penalty on 401(k) or IRA distributions. Fortunately, there are IRS-sanctioned strategies to access funds penalty-free for an early retirement from ExxonMobil, notably the Rule of 55 and IRC Section 72(t): Substantially Equal Periodic Payments (SEPP).

ExxonMobil's retirement plans also offer a special tax break for company stock via Net Unrealized Appreciation (NUA). This article provides a structured overview of these strategies—with ExxonMobil-specific considerations—to support employees in pursuing a confident and tax-efficient early retirement.

The Rule of 55: Penalty-Free 401(k) Access at Age 55

The Rule of 55 is an IRS provision that allows workers who leave their job during or after the year they turn 55 to withdraw funds directly from a 401(k) or 403(b) without incurring the 10% early withdrawal penalty. In practical terms, if separation from ExxonMobil occurs in the calendar year an employee turns 55 (or later), penalty-free distributions from the ExxonMobil Savings Plan become available. This rule does not apply to IRAs—only to the employer's plan from which the individual most recently separated. Resignation or layoffs before age 55 disqualify the account from Rule of 55 treatment. Additionally, if the individual becomes employed elsewhere and participates in another employer-sponsored plan, Rule of 55 access to ExxonMobil Savings Plan assets may be lost.



Plan Eligibility and Limitations

While the IRS allows these penalty-free withdrawals, the company plan must permit Rule of 55 distributions. (Plans aren't required to, but many do.) ExxonMobil's Savings Plan does allow it, though the Summary Plan Description (SPD) places some limits on frequency of withdrawals. In ExxonMobil's case, heritage Exxon employees (those who started with Exxon) are typically limited to one distribution after separation, whereas heritage Mobil employees may take up to two distributions per calendar year. This quirk stems from grandfathered plan rules after the Exxon–Mobil merger. In any case, any amount can be withdrawn—there's no required schedule or fixed sum each year as long as it's after age 55. A one-time lump sum or occasional withdrawals as needed between age 55 and 59½ are permitted, providing excellent flexibility.

Order of Withdrawals (ExxonMobil-Specific)

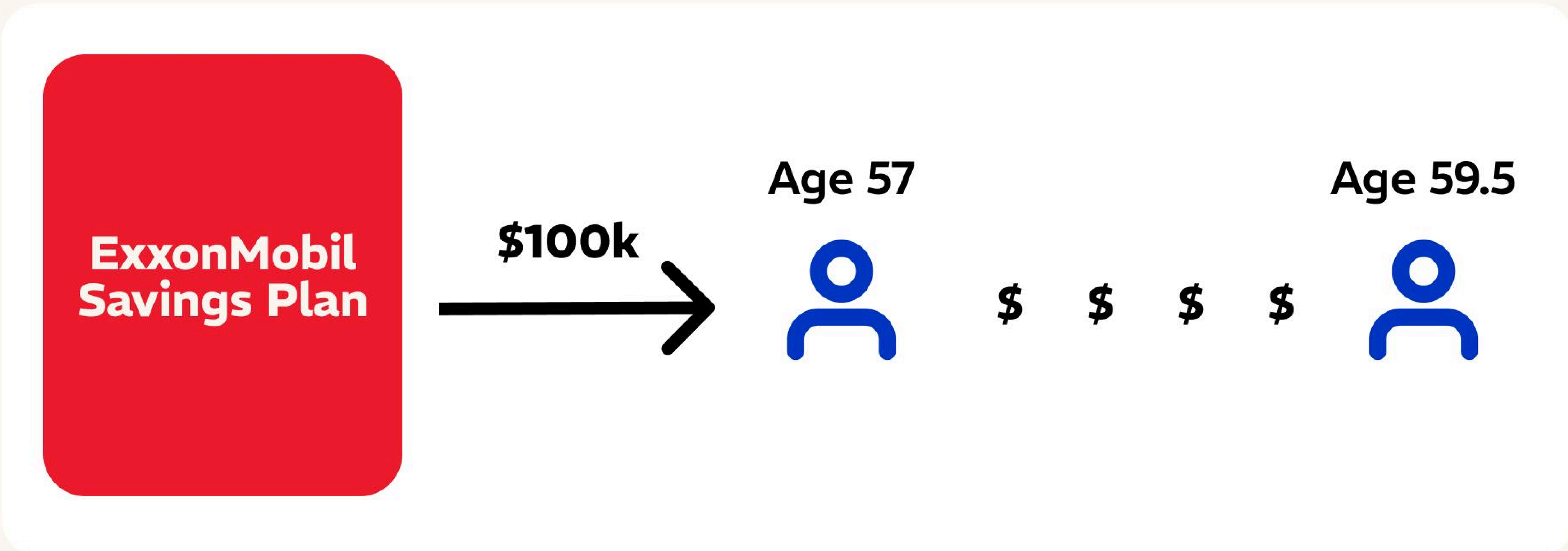
When a distribution under the Rule of 55 is requested from the ExxonMobil Savings Plan, the plan will withdraw money in a specific order from the available plan accounts. According to plan documents, withdrawals come first from the after-tax contributions account, then from the company contributions (general account), then before-tax (traditional) contributions, and finally from the Roth 401(k) account. Additionally, if no investment liquidation instructions are provided, the plan will cash out assets in a set order—generally tapping common assets and bond units first, then balanced fund and equity units, and ExxonMobil stock last. This default liquidation order is designed to preserve company stock for the NUA strategy (discussed later) unless absolutely needed. Awareness of these rules is important, as they can affect the tax character of the distribution (for example, pulling after-tax money first could reduce immediate tax liability, whereas withdrawing pre-tax money is fully taxable).

Tax Implications

The Rule of 55 waives the 10% penalty on early distributions, but normal income taxes still apply to any pre-tax or company-match dollars withdrawn. The plan will automatically withhold 20% for federal taxes on the distribution. If the actual tax bracket is lower, a refund of the excess withholding may be received upon filing for a tax return; if higher, additional taxes may be owed. Importantly, accessing 401(k) funds at age 55 means those assets leave the tax-deferred growth environment earlier than intended, potentially reducing long-term savings. Withdrawal amounts should be aligned with actual income needs, and the impact on future retirement assets should be carefully considered.

Example – Rule of 55 in Action

Suppose "Sally" is 57 and has decided to retire from ExxonMobil after satisfying the 55 & 15 rule. She has a sizable 401(k) balance. Using the Rule of 55, Sally takes a $100,000 distribution from her ExxonMobil Savings Plan to cover two years of living expenses. Because she qualifies under the Rule of 55, she avoids the 10% penalty (saving $10,000 in would-be penalties). Ordinary income tax will still apply to the $100,000, but no early withdrawal penalty is assessed. Sally could take further distributions in later years up until age 59½ as needed, or leave the remaining balance invested. The flexibility of the Rule of 55 allows her to "bridge the gap" to age 59½ (when IRA/401(k) withdrawals become universally penalty-free) on her own schedule.



Important: To maintain eligibility for the Rule of 55, 401(k) assets must remain within the ExxonMobil plan after retirement. Rolling funds into an IRA immediately after separation eliminates access to this provision. Once the assets are in an IRA, early withdrawals before age 59½ are subject to standard IRS penalties unless a 72(t) SEPP plan is used. For those separating from ExxonMobil at age 55 or later, keeping funds in the plan is typically the most efficient way to utilize the Rule of 55.

72(t) SEPP: Substantially Equal Periodic Payments for Any-Age Access

Not all ExxonMobil employees will separate at age 55 or later—some may retire earlier or have already rolled over balances from prior plans into IRAs. The 72(t) distribution rule offers an additional alternative for accessing retirement funds before age 59½ without incurring the 10% early withdrawal penalty. Under IRC Section 72(t), individuals can take "Substantially Equal Periodic Payments" (SEPP) from an IRA, 401(k), or other qualified retirement account, provided a strict withdrawal schedule is followed. Once initiated, the IRS waives the penalty on these distributions.

A SEPP schedule must continue for at least five years or until the account holder reaches age 59½, whichever is longer. For instance, starting a SEPP plan at age 50 requires at least 9½ years of distributions; starting at 57 requires five years of continued withdrawals, ending at age 62. Ending or modifying the schedule too early results in retroactive penalties on all prior SEPP withdrawals, plus interest—making precision and commitment essential.

How 72(t) Payments Are Calculated

The IRS permits three methods for calculating annual SEPP withdrawals. The method selected determines the income stream and must generally remain in place for the duration of the plan (with one exception noted below). The available methods are:

1. **Required Minimum Distribution (RMD) Method:** Calculate the payment each year as if it were a minimum required distribution, using IRS life expectancy tables. The amount is re-calculated annually based on your account balance and life expectancy. This typically yields the lowest annual payout of the three methods.

2. **Fixed Amortization Method:** A fixed annual payment is determined by amortizing the account balance over a life expectancy (based on an IRS-approved mortality table) using a chosen interest rate. Once established, the payment remains constant throughout the SEPP period.

3. **Fixed Annuitization Method:** The account balance is converted into an annuity using a specified interest rate and mortality factor. This method also produces a fixed annual payment but is based on annuity formulas rather than amortization. It often results in a higher payout than the amortization method.

Required Minimum Distribution (RMD) Method

Fixed Amortization Method

Fixed Annuitization Method

Each of these approaches is designed to produce a series of "substantially equal" payments over time. Once a method is selected and withdrawals begin, that payment must be taken each year without variation—except in the case of the RMD method, where annual payments can vary by design. A one-time switch from either fixed method to the RMD method is allowed. The IRS also limits the interest rate that can be used in these calculations, based on applicable federal mid-term rates, to prevent overly aggressive withdrawal assumptions.

Pros and Cons of 72(t) for Early Retirees

The 72(t) SEPP rule is a powerful tool, but it comes with trade-offs:

Pros: It allows penalty-free access to retirement funds at any age—there is no requirement to be 55 or separated from an employer. Any qualified retirement account can be used, including IRAs and old 401(k) plans, offering flexibility if assets are outside a current employer plan. It also provides a predictable annual income stream, which can assist in early retirement budgeting. The withdrawal amount can be tailored somewhat by selecting among calculation methods or by splitting accounts (for instance, applying 72(t) to a single smaller IRA while leaving other IRA accounts untouched).

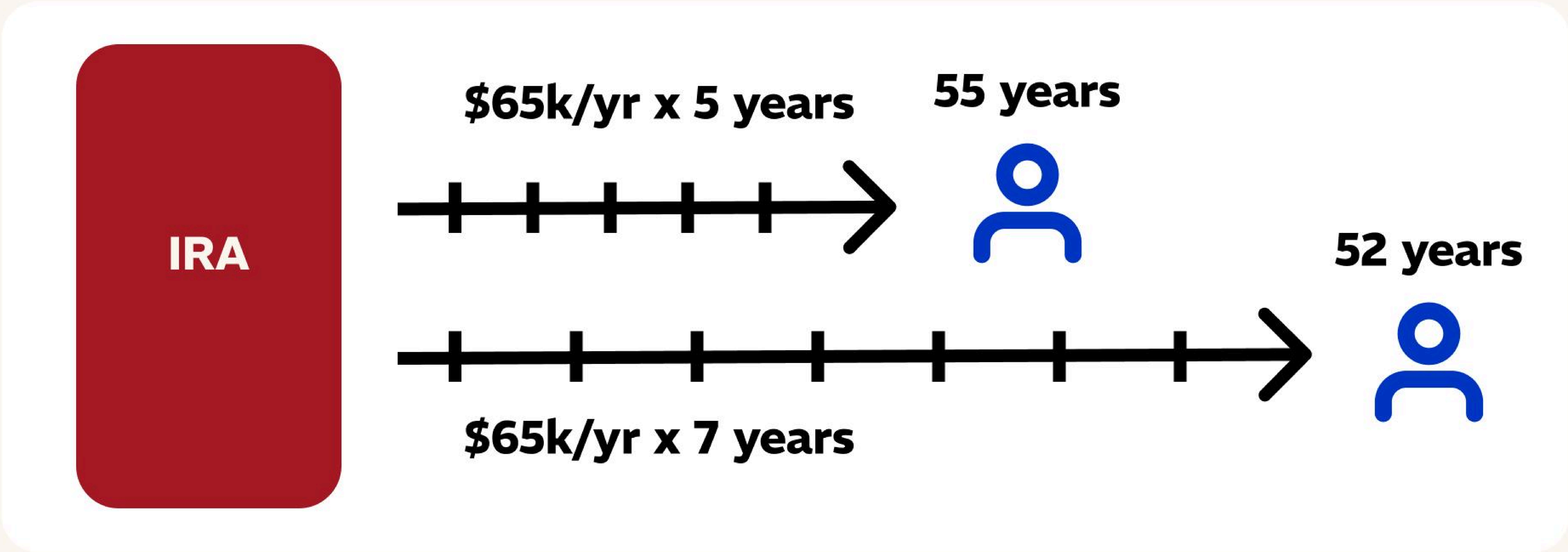
Cons: The greatest drawback is inflexibility—once initiated, the payment schedule must continue for at least five years or until age 59½ (whichever is longer). If financial needs change or an emergency arises, increasing or decreasing the distribution amount will invalidate the plan and trigger retroactive penalties. The calculation process is complex, and errors can lead to over-withdrawing or exhausting funds too quickly. In addition, the fixed annual payment may not align with actual spending patterns or market conditions. For example, if the payment exceeds annual spending needs, the excess must still be withdrawn—potentially leading to unnecessary taxation and faster depletion of invested assets. Distributions from pre-tax accounts are fully taxable, and larger withdrawals may push individuals into higher tax brackets. Finally, withdrawing substantial funds in the 50s reduces the assets left to grow, potentially impacting long-term retirement outcomes.

72(t) in Practice – Example

John is 57 and holds a large IRA after rolling over his ExxonMobil Savings Plan upon retirement. To supplement other income sources, he needs approximately $65,000 annually from retirement accounts. John initiates a 72(t) SEPP using the fixed amortization method. Based on his account balance and age, the calculated annual withdrawal comes out to roughly $65,000—allowing him to access these funds penalty-free. This amount must be withdrawn each year until age 62 to satisfy the five-year SEPP requirement. By using the 72(t) exception, John avoids the 10% early withdrawal penalty, saving approximately $6,500 annually compared to an unqualified distribution.

This strategy allows John to meet his early retirement income needs, but it also commits him to five years of unchanging distributions. If his needs shift or if markets decline, there is little room to adjust without violating IRS rules and triggering retroactive penalties.

If, instead, John were 52 at the time of initiating 72(t), distributions would need to continue until age 59½—a total commitment of ~7 years—since IRS rules require the longer of five years or until reaching age 59½.



Managing Distribution Size

A common planning technique with 72(t) is to split accounts to better control the withdrawal amount. Suppose John's IRA totals $1,500,000. Applying a 72(t) plan to the full balance might produce an annual payment of around $90,000—more than he needs. Taking excess distributions could lead to unnecessary taxes and accelerate the drawdown of retirement assets.

Instead, John could divide his IRA into two separate accounts. For example, allocating approximately $1,100,000 to one account and initiating the 72(t) SEPP on that portion could yield an annual distribution of roughly $65,000—aligned with his income needs. The remaining $400,000 would remain untouched and continue growing tax-deferred.

ExxonMobil retirees can use this tactic by rolling over part of the 401(k) to an IRA for a 72(t) strategy, while keeping the rest in the 401(k) to preserve Rule of 55 eligibility, depending on age and income needs. The key is that 72(t) offers penalty-free income at any age, but careful structuring and commitment to the rules are critical. Professional guidance is strongly recommended, as mistakes in execution or selecting the wrong withdrawal amount can carry significant consequences.

Rule of 55 vs. 72(t): Which Strategy Fits Best?

Both the Rule of 55 and 72(t) SEPP can help ExxonMobil employees access retirement funds early without triggering the 10% penalty, but the two strategies differ significantly in terms of eligibility, flexibility, and complexity. Below is a comparative overview highlighting when one may be more suitable than the other:

Minimum Age & Separation Requirement:
The Rule of 55 is only available if separation from an employer occurs in the year the individual turns 55 or later. It is designed for traditional early retirees. By contrast, 72(t) has no minimum age or employment separation requirement—SEPPs can begin in one's 40s or earlier, provided adequate retirement assets are available. However, 72(t) requires a commitment of at least five years or until age 59½, whichever is longer. The Rule of 55 has no ongoing distribution obligation; once eligible, withdrawals can be taken as needed (subject to ExxonMobil distribution rules).

Eligible Accounts:
The Rule of 55 applies only to the current (most recent) employer's 401(k) or 403(b) plan. It does not apply to IRAs or prior employer plans unless separation from that employer occurred at age 55 or later. In contrast, 72(t) can be used with nearly any qualified retirement account, including IRAs and old 401(k)s, offering more versatility in account types.

Flexibility of Withdrawals:
Rule of 55 distributions offer far more flexibility. Eligible individuals can decide how much to withdraw between ages 55 and 59½, with no requirement for equal or scheduled payments. 72(t) SEPPs, on the other hand, must follow a rigid, pre-calculated schedule, and withdrawals must continue consistently each year. The only limited flexibility is a one-time method switch (e.g., from amortization to RMD).

Calculation Complexity:
The Rule of 55 involves no special calculations—any amount up to the account balance can be withdrawn, subject to ordinary tax. In contrast, 72(t) requires careful calculation using IRS-approved formulas, life expectancy tables, and interest rate limitations. Mistakes can trigger retroactive penalties and interest.

Changing Needs:
For those with fluctuating income needs, the Rule of 55 is generally more favorable. Withdrawals can be paused or adjusted, depending on the situation. 72(t) is best suited for those who need consistent income and are confident that the scheduled amount will remain appropriate throughout the SEPP term. Unanticipated changes—such as part-time work, inheritances, or lifestyle shifts—can make 72(t) distributions more burdensome than helpful.

When Each Shines:
For those retiring from ExxonMobil at age 55 or 56, the Rule of 55 is often the preferred first option—simple, flexible, and penalty-free. It enables retirees to access 401(k) funds until age 59½ and then either roll the account into an IRA or continue drawing as desired. On the other hand, for individuals retiring earlier or working with large IRAs from previous employers, 72(t) may be the only viable option for accessing funds without penalty. Some ExxonMobil retirees combine both strategies—using the Rule of 55 on their Savings Plan and establishing a 72(t) from a separate IRA to supplement income.

Penalty Risks:
Rule of 55 carries little penalty risk once initial eligibility is met. In contrast, 72(t) comes with ongoing risk—failing to meet annual withdrawal requirements or making unauthorized changes results in retroactive penalties on all prior distributions. For those who qualify, the Rule of 55 provides a safer and more forgiving path.

Bonus Strategy: Net Unrealized Appreciation (NUA) for ExxonMobil Stock

In addition to avoiding early withdrawal penalties, ExxonMobil retirees should be aware of the Net Unrealized Appreciation (NUA) strategy—a tax optimization opportunity for those who hold ExxonMobil stock within the company's Savings Plan. Many long-tenured employees accumulate significant XOM stock, occasionally with a low cost basis. The NUA rule allows for the potential to convert what would otherwise be taxed as ordinary income into capital gains, which are typically taxed at lower rates.

When eligible for a lump-sum distribution—such as at retirement—it is possible to transfer company stock out of the plan "in-kind" to a taxable brokerage account, while rolling over the rest of the 401(k) into an IRA to preserve tax deferral on other assets. In doing so, ordinary income tax is paid only on the original cost basis of the stock at the time of the distribution. The remaining growth—i.e., the net unrealized appreciation—is not taxed until the stock is sold from the brokerage account, and it is taxed at long-term capital gains rates.

For example, if the plan holds $500,000 worth of ExxonMobil stock purchased over time for $75,000, a lump-sum distribution using NUA allows taxation of just the $75,000 at ordinary income rates (e.g., $18,000 if the retiree is at the 24% marginal rate), with the remaining $425,000 taxed later at long-term capital gains rates (e.g., $63,750 at 15%). Compared to full taxation at ordinary rates in an IRA, this strategy could reduce total taxes by $40,000 or more.

Using NUA as an Early Retirement Income Strategy

For ExxonMobil employees holding low-cost-basis company stock within the Savings Plan, the Net Unrealized Appreciation (NUA) strategy can serve as a powerful early retirement income tool. It allows a portion of retirement assets to be accessed outside of tax-deferred accounts—enabling more flexible income planning and, in some cases, capital gains taxation at rates as low as 0%.

For early retirees with modest income needs, there may be an opportunity to sell shares from the taxable account over several years while remaining within the 0% capital gains tax bracket. In 2025, for example, married filers with taxable income below $126,950 ($96,950 + $30,000 standard deduction) qualify for the 0% long-term capital gains rate. By carefully coordinating distributions, retirees can unlock income from appreciated ExxonMobil stock while incurring little or no federal tax liability on the gains.

This makes NUA particularly compelling for retirees between ages 55 and 59½ who qualify for penalty-free withdrawals under the Rule of 55. Instead of drawing heavily from pre-tax accounts that trigger immediate taxation and reduce future growth, selling NUA stock gradually from a taxable account can provide efficient, penalty-free income with the potential for significant tax savings.

Conclusion & Next Steps

Early retirement from ExxonMobil is an achievable goal when the right strategies are in place. By understanding the Rule of 55 and 72(t), retirees can access hard-earned retirement savings without triggering early withdrawal penalties. Additionally, advanced planning opportunities—such as using NUA stock for tax-efficient income—can further enhance the ability to retire with flexibility and control.

Each of these strategies comes with specific rules, eligibility requirements, and long-term planning implications. Taking a comprehensive view of all ExxonMobil benefits—such as the Pension Plan, Savings Plan, Supplemental Plans, and other available tax strategies—can help build a cohesive retirement income plan tailored to individual needs.

For over 30 years, we've helped ExxonMobil employees and executives navigate the complexities of early retirement, benefit elections, and tax-efficient income planning. Our office, located just a short drive north of the ExxonMobil Spring campus, offers convenient access to a team deeply familiar with the ExxonMobil benefits infrastructure. We provide integrated guidance across tax, investment, retirement, and estate planning strategies—built around the unique needs of ExxonMobil professionals. If retirement is on the horizon, understanding how benefits and tax strategies work together is an essential part of the process. We invite you to schedule a complimentary consultation, where we will evaluate your current situation to develop a tailored plan designed to help you retire with clarity and confidence.

Need some help?

If you'd like some help from one of our CPAs or CERTIFIED FINANCIAL PLANNER (CFP®) advisors regarding this strategy and how it applies to you, the Rhame & Gorrell Wealth Management team is here to help. Our experienced Wealth Managers facilitate our entire suite of services including financial planning, investment management, tax optimization, estate planning, and more to our valued clients.

Feel free to contact us at (832) 789-1100, service@rgwealth.com, or click the button below to schedule your complimentary consultation today.

Click Here To Schedule A Meeting

RHAME & GORRELL

WEALTH MANAGEMENT