



# The ESOP Association

**The ESOP Association**  
1726 M Street, NW, Suite 501  
Washington, D.C. 20036  
202-293-2971 Fax: 202-293-7568  
E-mail: [esop@esopassociation.org](mailto:esop@esopassociation.org)  
Web Page: [www.esopassociation.org](http://www.esopassociation.org)  
President, J. Michael Keeling, CAE

**BOARD OF DIRECTORS:**

**Chair**  
Lonnie L. Pepler-Moyer  
President & Publisher  
Monroe Publishing Company  
P.O. Box 1176  
20 West First Street  
Monroe, MI 48161-6176  
734-240-5795 Fax: 734-242-3175  
E-mail: [lonnie@monroenews.com](mailto:lonnie@monroenews.com)  
[www.monroenews.com](http://www.monroenews.com)

**Vice Chair**  
Mark R. Lomele  
Senior VP & Chief Financial Officer  
Recology  
50 California Street, Floor 24  
San Francisco, CA 94111-4796  
415-875-1174 Fax: 415-875-1124  
E-mail: [mlomele@recology.com](mailto:mlomele@recology.com)  
[www.recology.com](http://www.recology.com)

**Secretary/Treasurer**  
David L. Kelly  
Chief Financial Officer  
Acadian Ambulance Service, Inc.  
P.O. Box 98000  
302 Hopkins Street  
Lafayette, LA 70509-8000  
337-291-3333 Fax: 337-291-1591  
E-mail: [dkelly@acadian.com](mailto:dkelly@acadian.com)  
[www.acadian.com](http://www.acadian.com)

**Immediate Past Chair**  
Frieda S. Takaki  
President/CEO  
CHART Rehabilitation of Hawaii, Inc.  
826 South King Street  
Honolulu, HI 96813-3009  
808-523-9043 Fax: 808-526-0673  
E-mail: [fstakaki@aol.com](mailto:fstakaki@aol.com)  
[www.chartrehabilitation.com](http://www.chartrehabilitation.com)

**AT-LARGE BOARD MEMBERS:**

Carey Chen  
Vice President and Chief Financial Officer  
Hypertherm, Inc.  
P.O. Box 5010  
Hanover, NH 03755-5010  
603-643-3441 Fax: 603-643-2905  
E-mail: [carey.chen@hypertherm.com](mailto:carey.chen@hypertherm.com)  
[www.hypertherm.com](http://www.hypertherm.com)

Caryn Siebert  
President/CEO  
Carl Warren & Company  
770 S Placentia Avenue  
Placentia, CA 92870-6832  
714-572-5200 Fax: 714-961-8131  
E-mail: [csiebert@carlwarren.com](mailto:csiebert@carlwarren.com)  
[www.carlwarren.com](http://www.carlwarren.com)

Elyse S. Bluth  
Managing Director  
Duff & Phelps, LLC  
311 South Wacker Drive, Suite 4200  
Chicago, IL 60606-6622  
312-697-4675 Fax: 312-697-0112  
E-mail: [elyse.bluth@duffandphelps.com](mailto:elyse.bluth@duffandphelps.com)  
[www.duffandphelps.com](http://www.duffandphelps.com)

Ellis E. Moseley  
Executive Vice President & CFO  
FREEMAN  
P.O. Box 660613  
Dallas, TX 75266-0613  
214-445-1104 Fax: 214-445-9104  
E-mail: [ellis.moseley@freemanco.com](mailto:ellis.moseley@freemanco.com)  
[www.freemanco.com](http://www.freemanco.com)

Chair - Employee Ownership Foundation  
Joseph Cabral  
3725 Campus Drive  
Thousand Oaks, CA 91360-2737  
805-492-8715 Fax: 805-492-3095  
E-mail: [jcabralbiz@aol.com](mailto:jcabralbiz@aol.com)

Chair - Advisory Committee's Chairs' Council  
Karen D. Ng  
Partner  
Sedwick, Detert, Moran & Arnold LLP  
1 Market Plaza, Suite 800  
Steuart Street Tower, 8th Floor  
San Francisco, CA 94105-1008  
415-627-3488 Fax: 415-781-2635  
E-mail: [karen.ng@sdma.com](mailto:karen.ng@sdma.com)  
[www.sdma.com](http://www.sdma.com)

September 29, 2010

Mr. John Oxtoby  
Designated Federal Officer  
President's Economic Recovery Advisory Board  
Office of the Under Secretary for Domestic Finance  
Room 1325A  
Department of Treasury  
1500 Pennsylvania, NW  
Washington, DC 20220

Dear Mr. Oxtoby:

Needless to say, The ESOP Association and its approximately 2400 members nationwide, take strong issue with the recent August 2010 Report on tax reform options of the President's Economic Recovery Advisory Board (PERAB) that recommends that the specific tax law provisions encouraging the establishing of employee ownership through employee stock ownership plans, or ESOPs, be repealed.

Two justifications are put forward on page 79 of the Report for the anti-employee ownership position. One justification is ESOPs are bad retirement plans; the second justification is the Federal tax rate on C corporations would be lower if the revenues "lost" because of the ESOP tax benefits were restored to the C corporate tax base.

The second justification borders on the ridiculous as measured by how many less dollars a C corporation would pay if the approximate \$1.8 billion per annum tax support for ESOPs is thrown back into the Federal revenue pot.

In the next fiscal year budget, C corporations are estimated to pay \$297 billion in taxes; \$1.8 billion represents the special ESOP tax incentives. So, if the special ESOP tax incentives were eliminated, for each dollar in taxes paid under current law by a C corporation, that anti-ESOP action would cut that current dollar paid by less than 1¢.

Another way to look at these most recent estimates if ESOP tax incentives were eliminated is the C corporate tax rate would be lowered from 35% to 34.98%.

*Serving The Entire ESOP Community*

Mr. John Oxtoby  
September 29, 2010  
Page 2

Given the overwhelming thirty-plus year record of ESOP companies of keeping jobs in the U.S., in local communities when the original owners exit small to mid-sized companies, is it wrong to say the cost of encouraging good policy is too much at less than a penny forgone from the tax dollar?

An even bigger faulty justification in the Report is ESOPs are “bad” retirement savings plans.

Clearly my statement can border, or be labeled, a haranguing rant, so may I just respectfully request that the members of PERAB and its staff take the time to review the following documents:

First is a summary of some major research and surveys. May I single out the first entry, citing the book Shared Capitalism at Work: Employee Ownership Profit and Gain Sharing, and Broad Base Stock Option, which was funded by a prominent foundation with no connection to the ESOP community. (The Sage Foundation.) This multi-year research project references a term now in vogue “Shared Capitalism”, and while page 12 of the book is an excellent summary, a study of the graphs and charts in the book demonstrate ESOPs often score “higher” than other forms of shared capitalism, such as stock options, stock purchase, company stock in 401(k) plans, and/or cash profit sharing, in terms of impacting employees positively. (Attachment 1)

Next there is a fact sheet describing in general the demographics of ESOP companies in the 21<sup>st</sup> Century attached. (Attachment 2)

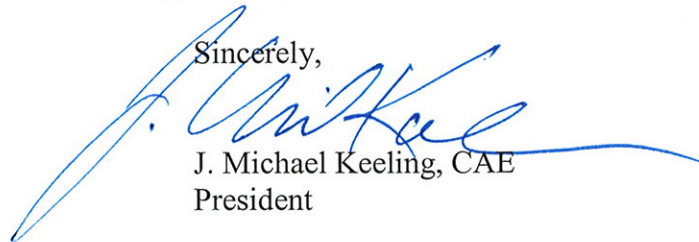
Next there is evidence that our friends in Europe, who recognize the power and justice of employee ownership, are advocating the “ESOP” model for Europe compared to their less effective current shared ownership models. (Attachment 3)

The ESOP community respects the review of Federal laws. When such a review in 1985/1986 led to the Tax Reform Act of 1986, Congress endorsed ESOPs, as did President Reagan and his Treasury Department.

Thus the ESOP community welcomes the questioning of the soundness of our nation having a policy promoting employee stock ownership through the ESOP model. If the review is done objectively by reviewing the track record of ESOP companies the past 30 plus years, we are confident the final policy recommended will be to have more employee ownership in the United States, not less.

We appreciate the opportunity to submit these comments.

Sincerely,



J. Michael Keeling, CAE  
President

JMK:sgs  
Attachments

## Attachment 1



### Employee Ownership and Corporate Performance

1. In the new book, *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*, edited by Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi, the editors list some take away findings on shared capitalism. The book identifies employee stock ownership plans (ESOPs) as a primary model of shared capitalism in the U.S. Below are the summarized findings.
  - Shared capitalism is a significant part of the U.S. economic model. Shared capitalism can increase wealth for workers at lower and middle income levels.
  - Shared capitalism improves the performance of firms. It is associated with greater attachment, loyalty, and willingness to work hard; lower chance of turnover; worker reports that co-workers work hard and are involved in company issues; and worker suggestions for innovations. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor policies.
  - Shared capitalism improves the performance of worker well-being. It is associated with greater participation in decision-making; higher pay, benefits, and wealth; greater job security, satisfaction with influence at the workplace, trust in the firm, and assessment of management; and better labor management relations practices. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor practices.
  - Shared capitalism complements other labor policies and practices. Firms with shared capitalism compensation are more likely to have other worker-friendly labor policies and practices. Combinations of shared capitalist pay and other policies, such as devolving decision-making to employees, wage at or above the market rate, and lower supervisory monitoring, produce the largest benefits for workers and firms.
  - The risk of shared capitalism investments in one's employer is manageable. Portfolio theory suggests employee ownership can be part of an efficient portfolio as long as the overall portfolio is properly diversified. Most workers have modest amounts of employee ownership within the ranges suggested by portfolio theory. Less risky forms of shared capitalism such as cash profit sharing and stock options where workers are paid market wages, or company stock is not financed by worker savings, can be prudently combined with riskier forms where workers purchase stock.

*Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*, edited by Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi, The University of Chicago Press, National Bureau of Economic Research, 2010. Above information can be found on page 12.
2. In August 2010, The ESOP Association and the Employee Ownership Foundation released the results of a survey conducted among the Association's 1,400 corporate members which confirmed positive benchmarks for ESOPs. The eye-opening statistics of the 2010 survey are the increase in age of the ESOP and account balances. In 2010, the average age of the ESOP was reported to be 15 years, demonstrating ESOP companies are sustainable. In addition, the average account balance has risen dramatically to \$195,222.65; a high figure compared to most data tracking defined contribution plans which correlates with the age of ESOPs participating in this year's survey. And approximately 90% of members reported having retirement savings plans in addition to the ESOP including the use of 401(k) plans, pension plans, stock purchase plans, and

stock options. In terms of motivation and productivity, 84% of respondents agree that the ESOP improved motivation and productivity. The Company Survey is conducted every five years and was last completed in 2005. Prior to 2005, the survey was completed in 2000.

Also in September 2010, the Employee Ownership Foundation released the results of an extensive study it funded that evidenced that ESOPs provide more employee benefits than non-ESOP companies. The study, which reviewed data from the Department of Labor Form 5500 on defined contribution retirement plans, found:

- ESOP companies have at least one plan, the ESOP, but more than half (56%) have a second retirement savings/defined contribution plan, likely a 401(k) plan. In comparison, the Bureau of Labor statistics reports that 47% of companies have some sort of defined contribution plan which shows that an ESOP company is more than likely to have two defined contribution plans than the average company is to have one plan.
- The average ESOP company contributed \$4,443 per active participant; in comparison to a non-ESOP company with a defined contribution plan which contributed on average \$2,533 per active participant. This study found that on average ESOP companies contributed over 75% more to their ESOPs than other companies contributed to their primary plan.

The project was done by the National Center for Employee Ownership (NCEO).

Finally, in the summer of 2010, the Employee Ownership Foundation released its 19<sup>th</sup> Annual Economic Performance Survey (EPS), that evidenced a very high percentage of companies, 91%, declared that creating employee ownership through an ESOP (employee stockownership plan) was “a good decision that has helped the company.”

3. In June 2008, Brent Kramer, a doctoral candidate at the City University of New York, now Ph.D., submitted a study, *Employee Ownership and Participation Effects on Firm Outcomes*, that “provides strong evidence that majority employee-owned businesses have a significant advantage over comparable traditionally-owned businesses in sales per employee.” The average advantage, \$44,500, means that a typical 200 person ESOP firm could be expected to have an almost \$9 million annual sales advantage over its non-ESOP counterpart. Sales per employee is the total of a company’s sales divided by the number of employees, and is a commonly used measure of a company’s productivity. Highlights of the study include: 1.) Using standard statistical methods, it was found that the average sales advantage for the ESOP firms in the study was \$44,500, or an average of an 8.8% sales per employee advantage over their non-ESOP counterparts in the same industry and of the same size; 2.) It was found that firms that ask for non-management employee input into innovation in work processes have a greater employee-owned advantage in sales per employee; 3.) Kramer’s research indicates the sales per employee advantage for the 50% plus ESOP companies compared to non-ESOP companies is less for larger employers. The Employee Ownership Foundation providing funding for the research and The ESOP Association contributed membership information to the study. A total of 328 ESOP firms and over 2,000 matching non-ESOP firms were included in the study.
4. In January 2007, the co-operative relationship between the Employee Ownership Foundation and the University of Pennsylvania’s Center for Organizational Dynamics led to an important new and “fresh” study of the effectiveness of ESOPs and employee ownership as uncovered in 30 years of scholarly research on the issue. The study, “Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience,” authored by Dr. Steven F. Freeman, Affiliated Faculty and Visiting Scholar in the Center for Organizational Dynamics, Graduate Division, School of Arts and Sciences at the University of Pennsylvania, confirms what the Association has been saying for years, that employee-owned companies experience increased productivity, profitability, and longevity. To download the study, “Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience,” please visit the University of Pennsylvania’s Library Digital Archive - [http://repository.upenn.edu/od\\_working\\_papers/2/](http://repository.upenn.edu/od_working_papers/2/).

The research was possible thanks to a generous, unrestricted donation to the University by ESOP Association member company, Alliance Holdings Inc. of Willow Grove, PA. Alliance is also a significant donor to the Employee Ownership Foundation, which gives significant donations to the University of Pennsylvania's Center for Organizational Dynamics Program.

5. The most comprehensive and significant study to date of ESOP performance in closely held companies was conducted by Dr. Joseph R. Blasi and Dr. Douglas L. Kruse, professors at the School of Management and Labor Relations at Rutgers University, and funded in part by the Employee Ownership Foundation. The study, which paired *1,100 ESOP companies* with *1,100 comparable non-ESOP companies* and followed the businesses for *over a decade*, reported overwhelmingly positive and remarkable results indicating that ESOPs appear to increase sales, employment, and sales/employee by about 2.3% to 2.4% over what would have been anticipated, absent an ESOP. In addition, Drs. Blasi and Kruse examined whether ESOP companies stayed in business longer than non-ESOP companies and found that 77.9% of the ESOP companies followed as part of the survey survived as compared to 62.3% of the comparable non-ESOP companies. According to Drs. Blasi and Kruse, ESOP companies are also more likely to continue operating as independent companies over the course of several years. Also, it is substantially more probable that ESOP companies have other retirement-oriented benefit plans than comparable non-ESOP companies, such as defined benefit plans, 401(k) plans, and profit sharing plans.
6. Research done by the Washington State Department of Community, Trade and Economic Development of over 100 Washington not publicly-traded ESOP companies compared to 500 not publicly-traded non-ESOP companies showed that the ESOP companies paid better benefits, had twice the retirement income for employees, and paid higher wages than their non-ESOP counterparts. *Wealth and Income Consequences of Employee Ownership: A Comparative Study from Washington State*, Kardas, Peter A., Scharf, Adria L., Keogh, Jim, November, 1998.
7. In 1995, Douglas Kruse of Rutgers University examined several different studies between ESOPs and productivity growth. Kruse found through an analysis of all studies that "positive and significant coefficients [are found] much more often than would be expected if there were no true relation between ESOPs and productivity." Kruse concludes that "the average estimated productivity difference between ESOP and non-ESOP firms is 5.3%, while the average estimated pre/post-adoption difference is 4.4% and the post-adoption growth rate is 0.6% higher in ESOP firms. Kruse cites two studies as part of his research: Kumbhakar and Dunbar's 1993 study of 123 public firms and Mitchell's 1990 study of 495 U.S. business units in public firms. Both reports found significant positive effects of greater productivity and profitability in the first few years after a company adopted an ESOP.
8. In 1995, the U.S. Department of Labor released a study entitled "The Financial and Non-Financial Returns to Innovative Workplace Practices: A Critical Review." This study found that companies that seek employee participation, give employees company stock, and train employees, can positively affect American corporations' bottom lines. In addition, the report cited three studies that analyzed "the market reaction to announcements of ESOPs which found significant positive returns to firms which implemented ESOPs as part of a broader employee benefit or wage concession plan." The three studies are: Chang's 1990 "Employee Stock Ownership Plans and Shareholder Wealth: An Empirical Investigation," Dhillon and Ramirez' 1994 "Employee Stock Ownership and Corporate Control," and Gordon and Pound's 1990 "ESOPs and Corporate Control." citation at (202) 293-2971 or E-mail: [esop@esopassociation.org](mailto:esop@esopassociation.org).

*For additional information about ESOP or The ESOP Association, visit the website at [www.esopassociation.org](http://www.esopassociation.org), call 1-866-366-3832, or email [esop@esopassociation.org](mailto:esop@esopassociation.org).*

## Attachment 2



### ESOP Facts and Figures

---

- There are approximately 11,500 ESOPs in place in the U.S., covering 10 million employees (10% of the private sector workforce).
- These employees draw in excess of 3% of their total compensation from ESOP contributions.
- The growth of ESOP formation has been influenced by federal legislation. While the rapid increase in new ESOPs in the late 1980s subsided after Congress removed certain tax incentives in 1989, the overall number has remained steady with new plans replacing terminated ESOPs. Currently, it is estimated that there are approximately 11,500 ESOPs in place in the U.S. However, there is no precise way to measure this figure accurately since the overwhelming majority of ESOP companies are privately held and do not file public reports with the SEC.
- About 330 ESOPs - 3% - are in publicly traded companies. However, these companies employ just under 50% of the nation's 10 million employee owners.
- An estimated 7,000 of the 11,500 companies have ESOPs that are large enough to be a major factor in the corporation's strategy and culture.
- Approximately 4,500 ESOP companies are majority-owned by the ESOP.
- Approximately 3,000 are 100% owned by the ESOP.
- About 2% of ESOP companies are unionized.
- While ESOPs are found in all industries, over 20% of them are in the manufacturing sector.
- At least 70% of ESOP companies are or were leveraged, meaning they used borrowed funds to acquire the employer securities held by the ESOP trustee.
- An overwhelming majority of ESOP companies have other retirement and/or savings plans, such as defined benefit pension plans or 401(k) plans, to supplement their ESOP.
- Of the 11,500 employee-owned companies nationwide, fewer than 2% were financially distressed when they established their ESOP.
- Total assets owned by U.S. ESOPs is estimated to be \$901 billion at the end of 2007.

*For additional information about ESOPs or The ESOP Association, please visit the website at [www.esopassociation.org](http://www.esopassociation.org), call 1-866-366-3832, or email [esop@esopassociation.org](mailto:esop@esopassociation.org)*

## Attachment 3

### **Employee Ownership Overseas: The European Federation of Employee Share Ownership and Australian Employee Buyout Centre Make Push for U.S. ESOP Model**

The Employee Ownership Foundation is a member of the European Federation of Employee Share Ownership (EFES) and gets periodic updates on the group's work. You can find more information about the work of the EFES here - <http://www.efesonline.org/>. Quick fact --- it's the organization that represents employee owners, employee-owned companies and others in the European employee ownership community

While scanning through the EFES's Annual Report, we came across a few things that we wanted to share about the organization's lobbying efforts. We won't be going into specifics about the organization's lobbying efforts, but if you're interested in that, you can probably find information on the EFES's website; we, however, wanted to note a point of interest to us.

The EFES's report sets forth the fact that a large portion of business owners in Europe will soon be retiring ---- about one third of European entrepreneurs, mainly those running family enterprises --- which would affect close to three million jobs each year in the coming decade. It is believed that this mass retirement will threaten the structure of family-owned businesses in the European Union.

While this in it itself is an interesting fact, what is really interesting is that ESOP-like structures are recommended as a vehicle for business succession that can help alleviate problems that might occur as business owners retire in the coming decade. The report states that full or partial ESOP buyouts provide an ideal vehicle to facilitate transitions. It would be an attractive alternative to selling the business to outsiders and to allow employees to keep control.

Does this sound familiar at all? We thought it might. It's interesting to see the U.S. model of employee ownership being promoted as a means of business succession planning. What's even more interesting is that, according to the EFES's report, the European Parliament agreed to take the first steps toward making this policy a reality.

Another overseas group we wanted to highlight was the Australian Employee Buyout Centre. You can find information about the Centre here - <http://www.aebc.org.au/>. According to the Centre's website its mission is to preserve, protect, and enhance jobs through employee ownership. What is even more interesting --- the project is being funded by the Australian Government. Yep, another country with government interest in employee ownership. Why isn't the U.S. government at the highest levels doing that?

Information about both the EFES's lobbying efforts and the Australian Employee Buyout Centre came from the most recent September EFES newsletter which is online here - <http://www.efesonline.org/EFES%20NEWS/2010/EFES%20NEWSLETTER%20-%209-2010%20EN.htm>.

Thoughts?