2019

The ESOP Association
Media Kit

Facts and background about ESOPs and the companies and employee owners who participate in them.

The ESOP Association
www.ESOPAssociation.org

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The ESOP Association

About The ESOP Association

The ESOP Association is the only entity that advocates for all ESOPs at the federal and national level. It provides education on ESOPs via national conferences (including the world's largest ESOP conference) and a unique, nationwide network of chapters.

Our Vision

We believe that employee ownership improves American competitiveness...that it increases productivity through greater employee participation in the workplace...that it strengthens our free enterprise economy and creates a broader distribution of wealth...and that it maximizes human potential by enhancing the self-worth, dignity, and well-being of our people.

Therefore, we envision an America where employee ownership is widely recognized as a catalyst for economic prosperity...where the great majority of employees own stock in the companies where they work...and where employee ownership enables employees to share in the wealth they help create. And we look for our nation, to become, for all the world, an example of prosperity with justice through employee ownership.

Our Mission

To educate and advocate about employee ownership with emphasis on ESOPs.

See the links below to read about The ESOP Association's:

- Background
- Leadership

James J. Bonham
President and CEO
The ESOP Association

From The ESOP Association's national headquarters in Washington, DC, James Bonham serves as President and CEO, leading The Association and its 18 state and regional chapters throughout the nation. Bonham also serves as President of the Employee Ownership Foundation, whose mission is to educate and expand employee ownership throughout the United States.

Bonham is a recognized expert in public policy, government advocacy, and executive leadership. He brings more than 25 years of experience as a high level government official, advisor, and business leader with expertise in the fields of taxes, labor, financial services, manufacturing, healthcare, and government contracting.

Before joining The Association, Bonham was Chairman for nearly eight years of the highly regarded Public Policy and Government Relations practice at Manatt, Phelps, & Phillips, LLP, a nationally recognized law and business consulting firm. In this role, Bonham led teams of lawyers, policy experts, and advocates representing clients as diverse as New York Life, The Recording Academy (Grammy's), StarKist, and the American Land Title Association.

During a decade of public service, Bonham held multiple senior staff positions, including Chief of Staff in the U.S. House of Representatives and the U.S. Senate, where he was frequently cited in the media as one of the 50 most influential aides of either political party.

ESOPs and Jobs

ESOPs excel at preserving jobs. When a company is sold to another business, it may be moved, merged with another firm, or shuttered entirely, resulting in the potential loss of some or even all the jobs in the business that was sold.

But when a firm is sold to an ESOP it must operate in a way that benefits the employees, making post-sale layoffs far less likely.

Fewer Layoffs

In general, employee owned companies are less likely to layoff employee than conventionally-owned businesses. The disparity between the two forms of ownership has grown steadily and dramatically over time.

In 2002, employee owned firms were 3.1 times less likely to lay off employees. By 2014, the number had more than doubled, and employee owned firms were 7.3 times less likely to lay off employees.

Layoffs of Employee Owners vs. Non-employee Owners

Source: Analysis of data from the General Social Survey by professors Douglas Kruse of Rutgers University and Fidan Kurtulus of the University of Massachussetts Amherst, published in *How Did Employee Ownership Firms Weather the Last Two Recessions?*

Research made possible by funding from the Employee Ownership Foundation.

Preserving Jobs in North Carolina

The North Carolina Justice Center found ESOPs can be an excellent way to keep mature businesses running and employees employed.

> "North Carolina is particularly reliant on older businesses," the report found, noting that the percentage of the state's businesses that are 15 years or older is twice the national average. These businesses may close when the owners retire if suitable buyers can't be found, especially since many are located in rural, less affluent areas where capital is limited.
>
> "Compared to the traditional economic development incentive programs, expanding employee ownership is an incredible bargain," the report found.

Preserving Jobs in New York

A report from the Advocate for New York City, Letitia James, found the City loses 2,220 jobs each year when owners of mature businesses retire. The reason: The owners can't find buyers for their businesses. James wants to encourage more ESOPs as a way of keeping jobs in the City.

Retiring Early

Rob Zicaro, who retired after working for an ESOP company for many years, wrote the following in The ESOP Association's blog on Oct. 24: "The financial benefits provided by my ESOP enabled me to retire seven earlier than I otherwise could have."

Many employees had to delay retirement after the economic downturn of 2008 decimated their retirement accounts. Zicaro retired early, creating an opening for someone else at a stable company with a great retirement plan.

Enabling employees to retire on time, or even early, is a good jobs program.

(Click here to see video of Zicaro interacting with President Bill Clinton at the 1993 Future of the American Workplace Conference.)

Wealth Inequality—Wages

1. ESOPs often offer higher wages and benefits than non-ESOP firms, according to multiple studies. (notes, p. 263, *The Citizen's Share*)

2. Greater ESOP participation may help address wealth inequality because capital income—which is available to employees through an ESOP—has risen faster than wage income.

"Shared capitalism could perhaps play a role in mitigating the rising inequality in income and wealth that has characterized the United States since 1970s and 1980s. The reason is that capital income has risen more than wages, with labor's share of national income falling in the 2000s, so that those with a share of business profits...have done better than wage earners." (page 9, *Shared Capitalism at Work*, by Professors Douglas Kruse and Joseph Blasi of Rutgers University, and Professor Richard Freeman of Harvard University)

3. ESOP companies often pay above-average salaries. A 2018 survey of ESOP Association members found that 75.4 percent of responding companies increased wages at or above the national average of 2.7 percent; 28.7 percent increased wages by 4 percent or more.

Wealth Inequality—Retirement Benefits

1. Most ESOPs require no out-of-pocket contribution from employees. This frees employees to pay for necessary items, save, or invest in other retirement vehicles. ESOPs are fairly unique in this regard. According to a Vanguard report, "In a typical DC [defined contribution] plan, employees are the main source of funding, while employer contributions play a secondary role."

2. The average employee in an ESOP company has accumulated $134,000 from his or her stake in the business, according to a 2018 Rutgers University study. This is 29 percent more than the average 401(k) balance of $103,866 reported by Vanguard the same year.

3. Among ESOP companies responding to a 2018 ESOP Association survey, 54.7 percent contributed 11 percent or more of pay to employees' ESOP accounts. (Among Vanguard defined contribution retirement plans, 70 percent offer a maximum employer match of three percent.)

4. Many businesses offer their employees no retirement plan at all. By contrast, among ESOP companies responding to an ESOP Association survey, 93.6 percent offer their employees *two* retirement plans—a 401(k) plan in addition to the ESOP; 2.6 percent of responding ESOP companies offer a pension in addition to the ESOP.

5. Americans need retirement options—like ESOPs—that require no out-of-pocket contribution from employees. A Northwestern Mutual report found that 21 percent of Americans have no retirement savings at all. And 25 percent of employees who participate in a 401(k) fail to contribute enough to earn the full match from their employers—thereby losing $1,336 dollars per employee each year—according to a 2015 report from Financial Engines.

ESOP Corporate Performance

1. S ESOPs outperformed the S&P 500 total return index in total return per participant by 62 percent, from 2002 to 2012, according to a study by Ernst & Young.

2. There is "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. (Source: Employee Ownership and Participation Effects on Firm Outcomes, Brent Kramer, Ph.D.)

3. ESOPs appear to increase sales, employment, and sales/employee by about 2.4 percent over what would have been anticipated, absent an ESOP. (Study by Professors Joseph Blasi and Douglas Kruse, Rutgers University.)

4. ESOPs are linked to higher sales growth per worker, higher sales per worker, and greater likelihood to survive than conventionally-owned firms. (Firm Survival, Performance, and Employee Ownership: Comparing Privately Held ESOP and non-ESOP Firms, 2013, Joseph Blasi, Doug Kruse, Daniel Weltmann)

Who Supports ESOPs?

Who Supports ESOPs?

Sometimes people try to characterize ESOPs as belonging to one party or another, or leaning in one political direction or another. The truth is that ESOPs have long enjoyed support that is bipartisan and bicameral.

No one group "owns" employee ownership: It is shared by all!

Just as importantly, it is shared by all kinds of groups with varying political leanings. Here are some key examples of the kind of broad support ESOPs enjoy from the left, right, and center.

Third Way
The Third Way is a centrist organization that endorsed ESOPs in a February 2016 paper titled Having a Stake:

"...there is evidence that they [ESOPs] provide the incentives for greater effort, more cooperation, more innovation and more sharing – all of which contribute to improvements in workplace performance and company productivity. ESOPs can also increase both firm survival and employment stability and create more harmonious workplaces.

"A sale to the employees living in an area protects the jobs and wealth of the employees, benefits the local community, and allows the entrepreneurs who built the businesses to cash out their equity interest so they can enjoy retirement. Employee share ownership thus helps address the problem that small businesses face in business succession."

U.S. Chamber of Commerce
A pro-business organization, the U.S. Chamber of Commerce specifically endorsed ESOPs in a white paper published in late 2017, which stated:

"Encourage ESOPs—promote the benefits of ESOPs and protect them from frivolous litigation and excessive regulation."

Center for American Progress
The left-leaning think tank, the Center for American Progress (CAP), expressed its strong approval of ESOPs in this January 2015 report, which states:

"Employee ownership can be a powerful tool to ensure that workers at all levels are able to share in the gains of a company's collective performance. Research shows that employee ownership typically provides a host of benefits—not just for workers but also for businesses and investors. If these programs were to grow throughout the economy, they could promote broad-based wealth creation, thereby fostering sustainable economic growth and reducing inequality."

And a January 2015 report of the Commission on Inclusive Prosperity, a group convened by CAP, states:

"Although substantial benefits can accrue to business owners from ESOPs, workers also benefit because they tend to receive higher overall compensation, in part due to increased productivity."

2016 Republican Party Platform
On the other end of the political spectrum from CAP sits the Republican Party, which included the following language in its 2016 party platform:

"Republicans believe that the employer-employee relationship of the future will be built upon employee empowerment and workplace flexibility. We therefore endorse employee stock ownership plans that enable workers to become capitalists, expand the realm of private property, and energize a free enterprise economy."

Engaging Employees

The facts and research on the following pages can help provide background and context for ESOPs.

If you need additional data, [contact The ESOP Association](#).

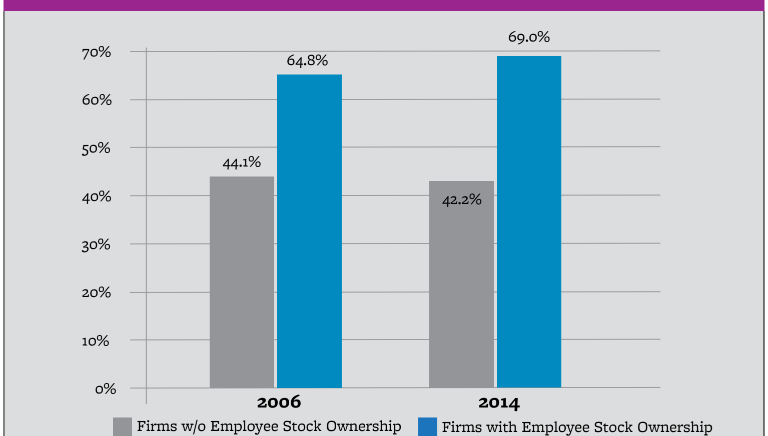
Employee Training

Providing training to employees helps keep their skills sharp and can lead to improved productivity. Companies with employee stock ownership tend to do far better than their conventionally-owned counterparts at providing such training.

What's more research shows that, over time, conventionally-owned companies have backed away from training, while companies with employee stock ownership have become *more* likely to provide training. (See the graph below.)

Employee Productivity

Company Sponsored Training



Firms with employee stock ownership are more likely to provide employee training than conventionally-owned ones. Over time, the gap between the two types of firms has widened.

Source: Analysis of data from the General Social Survey by Professors Blasi and Kruse of Rutgers University. Research made possible by funding from the Employee Ownership Foundation.

Companies that invest in training, as ESOP companies are likely to do, would be expected to see high levels of employee productivity. That is exactly what research has discovered.

The *2015 ESOP Survey* of corporate members of The ESOP Association revealed 28 percent found that implementing an ESOP resulted in "strongly improved motivation and productivity." Another 55 percent of respondents said the ESOP resulted in "somewhat improved" motivation and productivity.

Clearly, having an ESOP is linked to positive results in both motivation and productivity, which are key to producing great corporate performance that will benefits all employee owners.

Employee Involvement

Studies have found that employee ownership and profit sharing are linked to greater employee empowerment (which includes employee involvement, training, and job security).

When companies combine employee ownership and profit sharing with employee empowerment, they report especially low voluntary turnover rates. (Source: "Do Employee Ownership and Profit Sharing Help the Best Firms do Even Better?" in *British Journal of Industrial Relations.*)

Background on ESOPs

An ESOP is an employee benefit plan that makes the employees beneficial owners of that company's stock. Several features make ESOPs unique among employee benefit plans.

First, only an ESOP is required by law to invest primarily in the securities of the sponsoring employer.

Second, ESOPs are the only employee benefit plans able to that can borrow money. As a result, "leveraged ESOPs" may be used as a technique of corporate finance.

How Do ESOPs Work?

A company that wants to set up an ESOP creates a trust to which it makes annual contributions. These contributions are allocated to individual employee accounts within the trust.

Different formulas may be used for allocation. The most common is allocation in proportion to compensation, but other formulas allocating stock according to years of service, or some combination of compensation and years of service, have been used.

Typically employees join the plan and begin receiving allocations after completing one year of service with the company. A year of service is one in which an employee works at least 1,000 hours.

The shares of company stock and other plan assets allocated to employees' accounts must vest before employees are entitled to receive them. The least liberal vesting schedule allowed by law is 20 percent per year, starting after one year of service; at the end of six years of service, employees are fully vested. ESOP companies have the option of vesting employees more quickly, or even immediately.

ESOP employees who are at least 55 years old and have participated in the plan for at least 10 years must be allowed to diversify their ESOP account, up to 25 percent of its value. This option continues until age 60, at which time employees have a one-time option to diversify up to 50 percent of their accounts.

Employees receive the vested portion of their accounts at termination, disability, death, or retirement. These distributions may be made in a lump sum or in installments over a period of years. If employees become disabled or die, they or their beneficiaries receive the vested portion of their ESOP accounts immediately.

In a publicly-traded company, employees may sell their distributed shares through the stock market. In a privately held firm, the company must give the employees a put option on the stock for 60 days after the distribution. If the employee chooses not to sell at that time, the company must offer another put option for a second 60 day period starting one year after the distribution date. After this period, the company has no further obligation to repurchase the shares.

An ESOP company may make an "installment distribution," provided that it makes the payments in substantially equal amounts, and over a period to start within one year for a retirement distribution, within five years for a pre-retirement distribution, and not to exceed five years in duration in either case. The company must provide "adequate security" and pay interest to the ESOP participant on the unpaid balance of an installment distribution.

Uses of ESOPs

The two most common uses of ESOPs are to buy the stock of a retiring owner in a closely held company, and as an extra employee benefit or incentive plan. These two uses probably account for over 80 percent of all the ESOPs now in existence.

Tax provisions encourage retiring owners to sell to an ESOP. Other companies have used ESOPs as a technique of corporate finance for a variety of purposes—to finance expansion, make an acquisition, spin off a division, take a company private, etc. In a small number of cases—about two percent—ESOPs have been used to buy out a failing firm that would otherwise close.

Buying The Stock Of A Retiring Owner

Many closely held companies have no plans, or incomplete plans, for business continuity after the departure or retirement of the founder or major shareholder. If the company repurchases a retiring or departing owner's shares, the proceeds will be taxed as ordinary income. A sale to another company also will be taxed as ordinary income, and finding a buyer is not always easy, even for a profitable closely-held company.

An ESOP can provide a market for the equity of a retiring owner—or any interested major shareholder—of a closely held company. An ESOP also can provide a benefit and job security for employees in the process.

Retiring owners of closely held companies incur no taxable gain on a sale of stock to an ESOP, provided the ESOP owns at least 30 percent of the company immediately after the sale, and the sale's proceeds are reinvested in qualified securities within a 15 month period beginning three months before the date of the sale. This tax-deferred rollover is a most tax favored way for an owner of a closely held company to sell his or her stock. (Note, this unique tax benefit is not available if the stock sold is part of an S corporation. An S corporation's sponsoring an ESOP has different tax incentives from the traditional corporation.

Employee Benefit or Incentive

For many companies, the primary reason they set up an ESOP is to create an employee benefit. Some companies hope that by making employees into owners they will increase their dedication to the firm, improve work effort, reduce turnover, and generally bring a more harmonious atmosphere to the company.

Research has shown that giving workers a significant stake in their companies can improve employees' attitudes towards their companies, and that these improved attitudes can translate into bottom line improvements.

The Many Uses of A Leveraged ESOP

In a leveraged ESOP, the ESOP or its corporate sponsor borrows money from a bank or other qualified lender. The company usually gives the lender a guarantee that it will make contributions to the trust that enable the trust to amortize the loan on schedule. Or, if the lender prefers, the company may borrow directly and make a loan back to the ESOP.

If the leveraging is meant to provide new capital for expansion or capital improvements, the company will use the cash to buy new shares of stock in the company. If the leveraging is being used to buy out the stock of a retiring owner, the ESOP will acquire those existing shares. If the leveraging is being used to divest a division, the ESOP will buy the shares of a newly created shell company, which in turn will purchase the division and its assets. ESOP financing also can be used to make acquisitions, buy back publicly-traded stock, or for any other corporate purpose.

Two tax incentives make borrowing through an ESOP extremely attractive to companies that might otherwise never consider financing their employee's acquisition of stock.

First, since ESOP contributions are tax deductible, a corporation that repays an ESOP loan may deduct principal and interest from taxes. This can cut the cost of financing to the company significantly, by reducing the number of pre-tax dollars needed to repay the principal by as much as 34 percent, depending on the company's tax bracket.

Second, dividends are tax deductible if they are paid on ESOP stock passed through to employees, reinvested by employees for more company stock, or used to repay the ESOP loan. This federal tax law provision may increase the amount of cash available to a company, compared to one utilizing conventional financing. (Again as above, the ESOP dividend deduction is not available to S corporation sponsors of ESOPs.)

A Brief History

Employee ownership has a long history in the United States, but the ESOP in its current form was devised and perfected in 1956 by a San Francisco attorney and economist, Dr. Louis O. Kelso. Dr. Kelso believed that unless more people owned significant amounts of capital, many economic and social problems would prove intractable. Accordingly, he set out to design devices to broaden the ownership of capital. The ESOP was one of those devices.

Kelso won a powerful supporter in former Senator Russell B. Long (D-LA). Under Senator Long's leadership, Congress passed more than 17 laws encouraging the growth of ESOPs, starting with the passage of ERISA in 1974 through 1986. From 1987 through 2001, Congress amended some of these laws, adding new incentives for ESOPs and also limiting some of those passed from 1974 through 1986.

Congress encourages employee ownership with tax incentives to broaden the ownership of capital and to provide a means of corporate finance. The ownership of corporate stock is more concentrated than either the distribution of income or of any other kind of asset.

Studies have shown that ESOPs may provide employees earning very modest amounts of income with tens and even hundreds of thousands of dollars of stock.

Thus, the visions of Dr. Kelso and Senator Long have proven to be realistic because of ESOPs.

For Additional Information, Please Contact:

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