# What are ESOPs
# and
# Why are they important?

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# What are ESOPs?

An employee stock ownership plan (ESOP) is a tax-qualified, deferred compensation benefit plan that under US tax and labor laws, makes the employees of a company, beneficial owners of stock in that company.

# ESOPs are unique in that only ESOPs:

1. Are required by law to invest primarily in the securities of the sponsoring employer.

2. May borrow to acquire its assets without a specific DOL exemption from ERISA’s prohibited transactions rules.

# Growth of ESOPs

The growth of ESOP formation has been influenced by federal legislation. Currently the overall number has remained steady with new plans replacing terminated ESOPs.

# Approximately 11,500 ESOPs in U.S.

- However, there is no precise way to measure this figure accurately since the overwhelming majority of ESOP companies, 95%, are privately held and do not file public reports with the SEC.

- The approximately 11,500 ESOPs in place in the U.S. have 10 million employees (10% of the private sector workforce).

# Approximately 11,500 ESOPs in U.S.

- 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 5,500 are majority-owned by the ESOP.
- Approximately 4,000 are 100% owned by the ESOP.

# Benefits of ESOP Companies

- Research indicates ESOP companies tend to experience:

- Increased productivity, as well as motivation among employees, after establishing an ESOP.

- Improve employee attitude toward the company by giving employees a significant stake.

- More information sharing, increased communications, and involvement in decision making for employee owners.

# Benefits of ESOP Companies

- Research conducted by Drs. Joseph Blasi and Douglas Kruse at Rutgers University in New Brunswick, NJ, indicates that over a 10 year period, privately held ESOP companies had grown annually at a 2.4% greater rate than their non-ESOP counterparts.

# Benefits of ESOP Companies

- Research indicates tax incentives for S corporation ESOPs, and for the sale of stock by exiting shareholders in C corporations, are very favorable for privately held companies. One of the major benefits for the sale of stock of a C corporation to an ESOP is that the seller can elect to not recognize gain on the sale as long as the proceeds are reinvested in stocks or bonds of domestic corporations.

# Employee Ownership & Corporate Performance

- 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.

# A Good Decision

- In the summer of 2010, the Employee Ownership Foundation released its 19th 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."

# Motivation and Productivity

- **This information is from the 2010 ESOP Company Survey conducted among ESOP Association corporate members in 2010:**

- 84% of ESOP companies have seen improved motivation and productivity as a result of the implementation of the ESOP. This figure has risen steadily since the survey was first completed in 1989:

  1989 – 66%
  2000 – 75%
  2005 – 82%
  2010 – 84%

# Motivation and Productivity

| | Total | S Corporation | C Corporation |
|---|---|---|---|
| Strongly improved motivation and productivity | 23% | 24.6% | 17.6% |
| Somewhat improved motivation and productivity | 61% | 61.9% | 59.2% |
| No impact on motivation and productivity | 12% | 9.6% | 16.8% |
| A negative impact on motivation and productivity | .9% | 1.2% | 0 |
| Not sure | 4.1% | 2.7% | 6.4% |

# Competiveness

- **This information is from the 2010 ESOP Company Survey conducted among ESOP Association corporate members in 2010:**
- The results of the 2005 survey showed the competiveness question to be a sticky point. Only 25% agreed that the company was more competitive as a result of the ESOP.
- In 2010, this figure has risen to 55%, with 27% unsure of the ESOP's impact, and 18% stating that the ESOP has not increased competitiveness. Note the 2010 Survey incorporated the performance of the companies in 2009.

# Competiveness

| | Total | S Corporation | C Corporation |
|---|---|---|---|
| Yes, more competitive | 55% | 58.7% | 44.3% |
| No, less competitive | 18% | 16.3% | 23.4% |
| Not sure | 27% | 25% | 32.3% |

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