

ESOPs – KEY FACTS

ESOP Overview

ESOPs are qualified retirement plans invested primarily in the employer's stock –forming a team of employee owners motivated to build a successful company and create more jobs. ESOPs invest in the longevity of all companies – particularly small businesses – and the future of individual retirement planning and wealth for all employees.

The Wisconsin Chapter members generally work for small businesses of 1,000 employees or less. Their stock is not publicly traded. When employees retire, or leave the company for other reasons, the company converts their shares to cash at fair market value, which is determined by an independent appraiser.

ESOPs Benefit Employees

- ESOPs provide the opportunity to own a piece of the company – “shared capitalism” something difficult for employees to accomplish otherwise.
- Jobs are less likely to be eliminated and are more likely to remain in the community when a company owner sells stock to an ESOP rather than a third-party buyer.
- ESOPs reward employees with a benefit tied directly to company performance. Appraisal reports delivered to ESOP companies in 2009 suggest that ESOP investments in employer stock, on average, significantly outperformed the stock market in 2008.
- Research indicates that ESOP implementation results in more information sharing, increased communications, and involvement in decision-making for employee owners.

ESOPs Create Retirement Funds

- An ESOP can create a retirement fund for employees who previously may have had none.
- Employer-funded ESOP benefits can supplement an employee's 401(k) savings.
- ESOP benefits may be rolled into an IRA to the same extent as 401(k) benefits, unlike other forms of equity-based compensation.

Companies Reap the Benefits of ESOPs

- Studies show that when ESOP benefits are effectively communicated to employees, higher productivity and improved employee morale can result – decreasing workers' compensation rates and increasing profitability.
- An ESOP can improve a company's cash flow if the plan sponsor contributes company shares, rather than cash to the plan.
- An ESOP can facilitate a gradual implementation of management succession.
- An ESOP can be a valuable tool for corporate finance, raising capital for expansion and investments in equipment.

By the Numbers . . .

- **13%** The average employer contribution made by Association members to their ESOP each year as a percentage of covered compensation.
- **\$65,000** The average participant ESOP account balance reported by members.
- **87%** Members offering a second retirement plan in addition to the ESOP, such as a 401(k) plan, pension plan, or profit sharing plan.
- **82%** ESOP Association members reporting that motivation and productivity increased as a result of the ESOP.
- **99%** ESOP Association members that are private, closely-held companies.
- **75%** Association members proudly advertising the fact that they are employee owned.
- **71%** Members that have fewer than 250 employees.
- **65%** ESOP Association members that are more than 50% owned by the ESOP.
- **60%** Members reporting that their ESOPs have been in place for 10 years or more.

The ESOP Association

Founded in 1978, The ESOP Association is the national association of ESOP companies and service providers with a professional commitment to employee ownership through ESOPs. With its 18 local Chapters, the Association serves approximately 1,500 employee-owned companies and 1 million employee-owners. The Association is a leading voice in America for employee ownership through ESOPs. In addition, The ESOP Association is a prime source for educational materials necessary for successful implementation and administration of an ESOP.