


NCEO
The National Center for
Employee Ownership



ESOP Plans Today; The Participant's Perspective
Presented by
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ESOPs in the US

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Examples of ESOP Companies



www.nationsonline.org/maps/USA_blank_map.jpg


NCEO ESOP Plans Today

- 11,300 ESOP plans today in US
- Cover over 13.6 million employees
- Hold about \$900 billion in assets
- Most are privately held – 5% are publicly traded



NCEO On average, ESOP companies have...


- **Faster Growth**
Companies with ESOPs grow 2.3% to 2.4% faster measured in sales, employment, and productivity growth.
- **Higher compensation**
5-12% higher wages than in comparable non-ESOP companies.
- **More assets**
ESOP employees have 2.5 times the retirement assets in company-sponsored plans.
- **Improved company stability**
Less likely to face bankruptcy or acquisition; 20% better "survival" rate.



NCEO ESOPs in the United States

Year	Minimum Number of Companies with Plans	Participants	Assets
1975	1,600	250,000	NA
1980	4,000	3,100,000	NA
1990	8,100	5,000,000	NA
1993	9,200	7,500,000	NA
1999	10,700	6,320,000	\$340,200,000,000
2000	10,500	6,400,000	\$315,000,000,000
2001	10,500	8,390,000	\$408,400,000,000
2002	10,300	9,740,000	\$468,400,000,000
2003	9,600	11,090,000	\$622,500,000,000
2004	9,700	11,360,000	\$697,700,000,000
2005	10,000	11,700,000	\$717,500,000,000
2006	10,400	12,290,000	\$827,500,000,000
2007	10,800	12,710,000	\$901,000,000,000
2008	11,100	13,630,000	NA
2009	10,900	NA	NA
2010	11,300	NA	NA

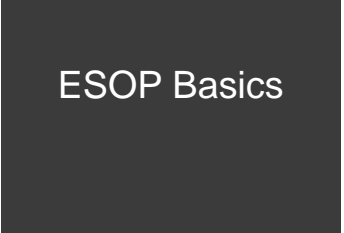
From "A Statistical Profile of Employee Ownership," NCEO Web site




NCEO Industries		
	Distribution	Penetration
Manufacturing	22%	High
Finance and Insurance	20%	High
Professional, Scientific, Technical Services	17%	
Construction	11%	
Wholesale Trade	10%	High
Retail Trade	6%	
Management of Companies and Enterprises	3%	High
Transportation and Warehousing	2%	Low
Information	2%	
Administrative and Support and Waste Management and Remediation Services	2%	Low
Health Care and Social Assistance	2%	Low
Other Services (except Public Administration)	2%	Low
Real Estate and Rental and Leasing	1%	Low
Accommodation and Food Services	1%	Low
Agriculture, Forestry, Fishing and Hunting	1%	
Mining, Quarrying, and Oil and Gas Extraction	<1%	Low
Utilities	<1%	

ESOPs as Retirement Benefits; NCEO: September 15, 2010

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ESOP Basics




NCEO Congress Supports ESOPs


Congress passed Employee Retirement Income Security Act (ERISA) in 1974 to


- increase retirement assets
- distribute wealth more equitably
- create a more competitive economy


S Corporation ESOP law: 1997

Pension Protection Act: 2006



NCEO	Federal Regulation of ESOPs
	<p>Congress set extensive requirements to ensure fairness.</p> <p>ESOPs are regulated by</p> <ul style="list-style-type: none">- <i>The Department of Labor (DOL)</i>- <i>The Internal Revenue Service (IRS)</i>

NCEO	The ESOP Trust
	<p>Each ESOP is run by a trust.</p> <p>The trust must operation "for the exclusive benefit of plan participants."</p> <p>The trust is a separate legal entity from the company.</p>

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	<div data-bbox="315 1514 654 1749" style="background-color: black; color: white; padding: 20px; text-align: center;"><h2>How ESOPs Work</h2></div>

NCEO Overview of ESOP Flow


Original Owners

ESOP

Former participants

Step 1

Step 1: The ESOP transaction



NCEO Overview of ESOP Flow

Original Owners


ESOP

Former participants

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Step 1: The ESOP transaction

Step 2: ESOP operations



NCEO Overview of ESOP Flow

Original Owners

ESOP


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Step 1

Step 1: The ESOP transaction


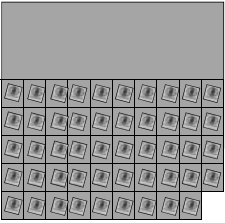
Step 2: ESOP operations

Step 3: ESOP distributions



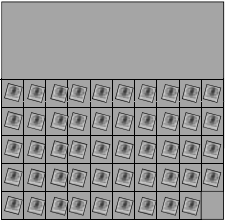
NCEO Step 2: ESOP Operations

ESOP




NCEO Step 2: ESOP Operations

ESOP

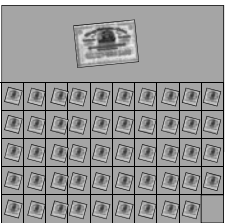


A. Participation




NCEO Step 2: ESOP Operations


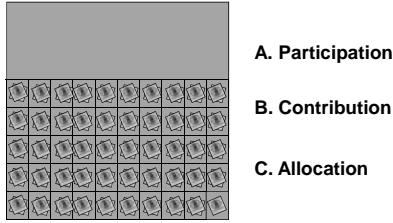
ESOP





A. Participation


B. Contribution





NCEO	Step 2: ESOP Operations	
	<p>ESOP</p> 	

NCEO	Step 2A: Participation	
	<p>Eligibility for participation</p> <ul style="list-style-type: none">- 1000 hours of service- One year of employment- Age 21 <p>People become participants on the first "entry date" after eligibility.</p> <p>Exception for members of collective bargaining units and separate lines of business.</p>	

NCEO	Step 2B: Contribution	
	<p>Each year, the company makes a cash contribution to the ESOP to repay the loan.</p> <p>If 10% of the loan is repaid, 10% of the shares are allocated to participants.</p> <p>The company can also pay dividends on the stock to speed up repayment.</p>	

NCEO	Step 2B: Contribution	
	<p>Some ESOPs don't use loans. These are called "non-leveraged ESOPs."</p> <p>Option 1: Contributing stock</p> <ul style="list-style-type: none">- The company releases new shares to the ESOP.- Former owners are "diluted." <p>Option 2: Contributing cash</p> <ul style="list-style-type: none">- The company contributes cash to the ESOP.- The ESOP uses the cash to buy shares.	

NCEO	Step 2C: Allocation	
	<ul style="list-style-type: none">• Eligibility for annual allocation (usual)<ul style="list-style-type: none">- 1000 hours of service that plan year- Employed on last day of plan year• Additional eligibility<ul style="list-style-type: none">- Participants will receive an allocation in the year of their retirement, disability or death.• These requirements cover...<ul style="list-style-type: none">- Allocations due to company contributions- Each participant's share of forfeited stock	


NCEO	Step 2C: Allocation	
	<p>The size of a participant's allocation depends on the plan's allocation formula.</p> <p>The most common allocation formula depends on:</p> <ul style="list-style-type: none">- Total shares to be allocated that year (the company contribution)- The participant's share of total eligible compensation	

NCEO Step 2C: Allocation

Total Eligible Compensation

Don has 8%

Susan has 5%



NCEO Step 2C: Allocation

Total Eligible Compensation


Don has 8%

Susan has 5%

Total Annual Allocation

Don gets 8%


Susan gets 5%





NCEO Step 3: Distribution


Three key questions:


- A. Will I forfeit any of my account?
- B. When will I receive my distribution?
- C. What form will the distribution be?





NCEO	Step 3A: Forfeitures	
	<p>You forfeit nothing if...</p> <ul style="list-style-type: none">- You leave the company after Normal Retirement Age- The plan is terminated while you are a participant- <i>[Optional]</i> You take early retirement, become disabled or die while a participant <p>Otherwise, the "vesting schedule" applies.</p>	

NCEO	Step 3A: Forfeitures	
	<p>Vesting controls whether and how much of a participant's account can be forfeited. If an account is 100% vested, nothing in the account can be forfeited. Forfeitures are allocated among remaining ESOP participants.</p>	

NCEO	Step 3B: Timing of Distributions	
	<p>Plans vary widely Main factors affecting timing:</p> <ul style="list-style-type: none">- "Normal Retirement Age"- Status of ESOP loan repayment- Dollar value of account <p>Check your ESOP documents.</p>	

NCEO	Step 3C: Form of Distributions	
	<p>Plans vary widely:</p> <ul style="list-style-type: none">- Stock- Cash- Note- Combination of above <p>Check your ESOP documents.</p>	

NCEO	Loren Rodgers	
	<p>Loren Rodgers is the executive director of the <i>NCEO</i>. Active in the field since 1995, he works with firms at all stages of developing ownership cultures, speaks extensively, and has written dozens of articles on topics including the impact of employee ownership, employee motivation, corporate governance, ESOP transactions and operations, and business literacy.</p>	

NCEO	Questions?	
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