

# COMMUNITY CONVERSATION

## The Employee Ownership Effect: How ESOPs Change Lives

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*Communications Director*

| *Membership Director*

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# About the NCEO



The NCEO is a nonprofit organization that has been supporting the employee ownership community since 1981. Our mission is to help employee ownership thrive.

We help our thousands of members, primarily employee-owned businesses from throughout the employee ownership field by:

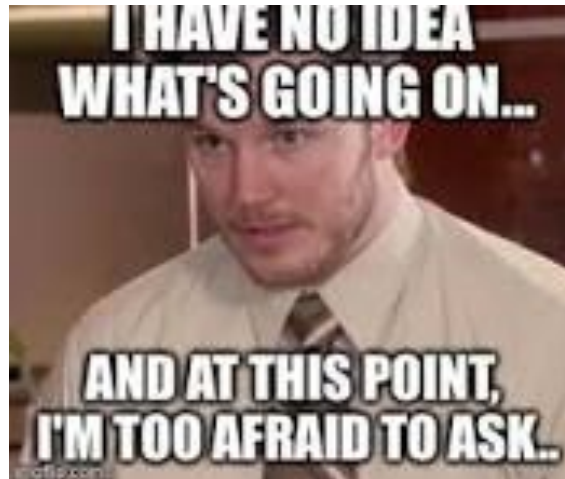
- Generating original research
- Facilitating the exchange of best practices at our live and online events
- Featuring the best and most current writing by experts in our publications and resources
- Helping employee-owned companies build ownership cultures where employees think and act like owners

# POLLING QUESTION 1

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How familiar are you with ESOPs?

- a) Low - What's an e-sock? 🧦
- b) Medium - I'm more familiar than the average bear. 🐻
- c) High - My middle name is ESOP! 😎





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# ESOP Basics

# What do we mean by “employee ownership”

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- Employee ownership is an arrangement in which a company’s employees own shares in their company or the right to the value of shares in their company. Employee ownership is a broad concept that can take many different forms, ranging from simple grants of shares to highly structured plans.
- Employee stock ownership plans (ESOPs) are the most common form of employee ownership in the U.S.
- Other forms of employee ownership include worker cooperatives, employee ownership trusts, direct employee ownership, stock options, stock grants, and synthetic equity (granting the right to the value of shares but not the shares themselves).

# Employee Ownership by the Numbers



<https://www.nceo.org/research/employee-ownership-by-the-numbers>



# Positive economic impacts of ESOPs

## Individuals, companies, and communities

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- ✓ ESOPs help retain local jobs instead of the company shutting down.
- ✓ That means those with jobs are spending money locally in the community.
- ✓ ESOP companies by their nature think more long-term instead of just the next quarter. Research shows fewer layoffs as the first step even during the pandemic.
- ✓ ESOP employees in turn are more likely to be in for the long haul. Research shows much lower voluntary turnover even during the pandemic.
- ✓ In short, ESOPs are one of the few remaining ways that workers can build actual wealth over time.

Source: <https://www.nceo.org/research/research-findings-on-employee-ownership#recent-studies>

# Regulatory facts - why ESOPs are unique

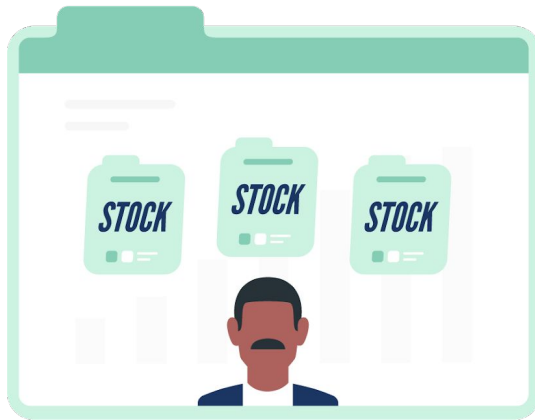
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- The Employee Retirement Income Security Act of 1974 (ERISA), and the companion provisions of the Internal Revenue Code (the “Code”) provide compelling tax incentives for companies to become employee-owned, and in return, Congress wrote ERISA and the Code to impose some requirements with teeth.
- ESOPs must follow federal law because the federal government provides tax benefits when ESOPs meet certain requirements.
- Congress set extensive requirements to ensure fairness.
- ESOPs are regulated by
  - ◆ *The Department of Labor (DOL)*
  - ◆ *The Internal Revenue Service (IRS)*



# STEP

1

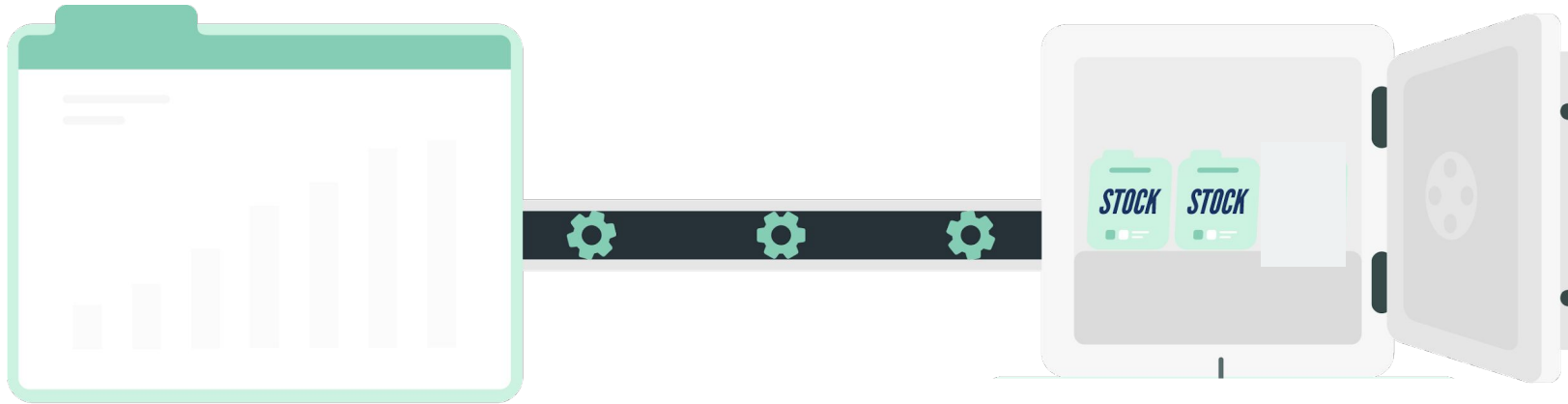


Current Owner

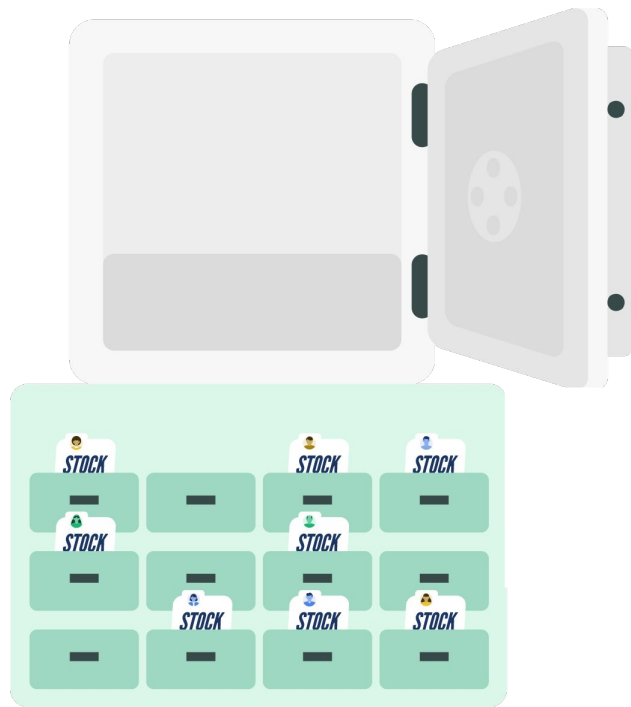
STEP

2

ESOP



Former Owner



STEP

3

ESOP



# Your Annual ESOP Statement

**Balance:** The total value of your ESOP account.

**Vesting:** How much of that value you "own."

**Allocation:** How many new shares you received this year.

**Diversification:** Your opportunity to sell shares and put the money in other investments.

Date of Birth:	<00-00-00>	
Date of Hire:	<00-00-00>	
Date of Participation 1:	<00-00-00>	
		<b>Years of Vested Service 2:</b> <00>
		<b>Percentage Vested 2:</b> <00%>

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YOUR ACCOUNT BALANCE

This Year as of 12-31-2007 is:	<\$00,000.00>
Last Year as of 12-31-2006 was:	<\$00,000.00>
Net Change in Account Balance:	<\$00,000.00>

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STATEMENT OF ANNUAL ACTIVITY

	Number of Shares	Account Balance
Starting Balance 3:	<000>	
Allocations 4:	<000>	
Forfeitures 5:	<000>	
Distributions 6:	<000>	
<b>Ending Balance 7:</b>	<b>&lt;000&gt;</b>	<b>&lt;\$00,000.00&gt;</b>
<b>Vested Balance 8:</b>	<b>&lt;000&gt;</b>	<b>&lt;\$00,000.00&gt;</b>

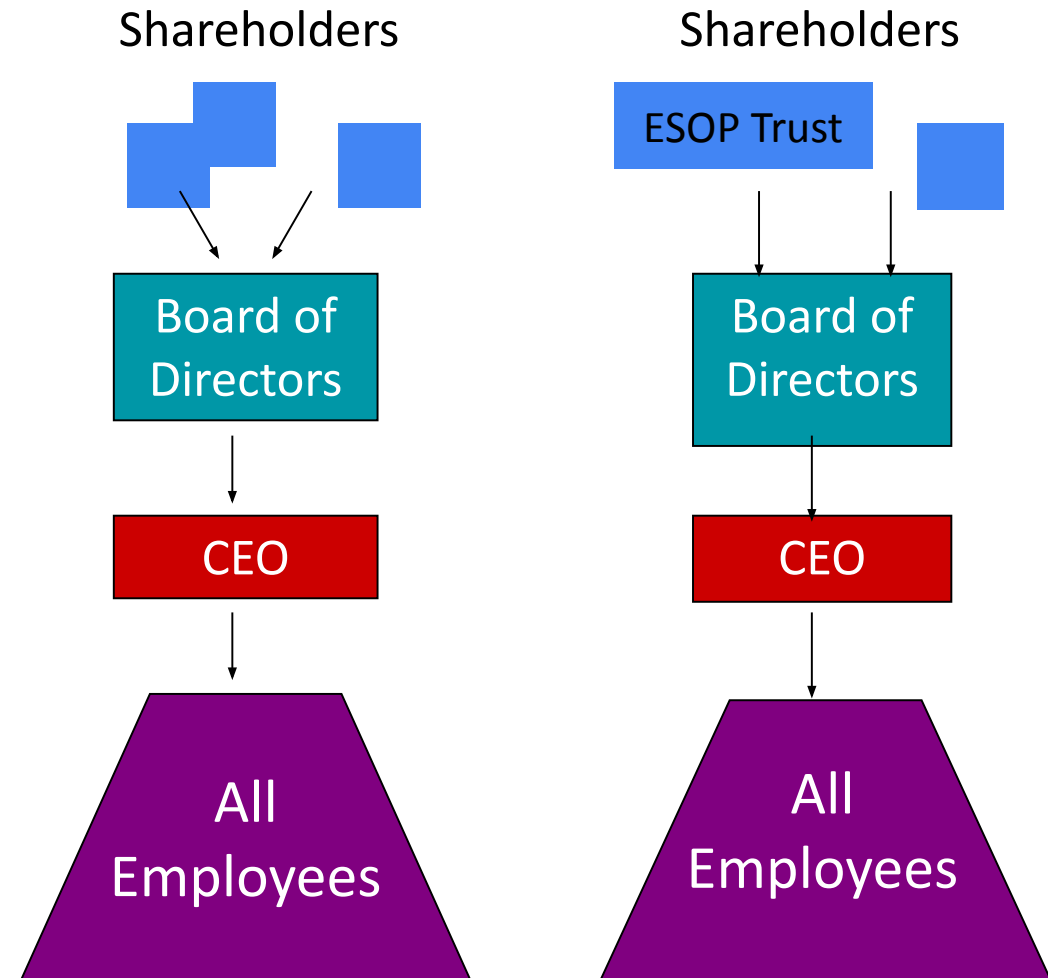
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Beginning Stock Price per Share 9:	<\$00,000.00>
Ending Stock Price per Share 10:	<\$00,000.00>
Change in Share Price 11:	<\$00,000.00>

Example from NCEO Document Library

# Corporate Structure: Conventional vs. ESOP-owned

- Each ESOP is run by a trust.
- The trust must operation “for the exclusive benefit of plan participants.”
- The trust is a separate legal entity from the company.







# The ESOP Effect: Building wealth in the now

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- ✓ The harder you work toward the success of the company, the more can be contributed to your account.
- ✓ You can't touch this money, so it will actually grow. This is how wealthy people build wealth.
- ✓ Instead, you can use your money to save, invest, create a rainy-day fund instead of depleting your future.
- ✓ Research documents positive impact that building financial security can have health and well-being more generally.
- ✓ Learning about the ESOP can give you business literacy knowledge that most of us aren't taught in school. This can help in your own finances and planning. Researchers are pointing to these skills as critical to addressing wealth inequality.



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# The Data on ESOPs



# Direct evidence in research data

## Long-term NCEO research on ESOPs and economic well-being of individuals

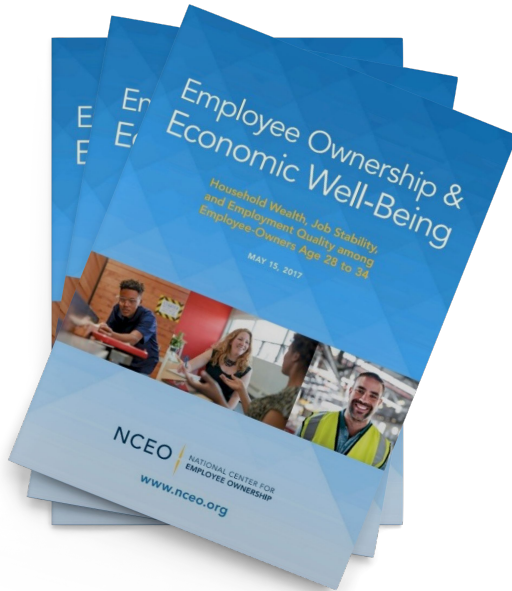
The National Longitudinal Surveys (NLS), sponsored by the US Bureau of Labor Statistics, are nationally representative surveys that follow the same sample of individuals from specific birth cohorts over time.

Our research uses data from a sample first interviewed in 1997 and biennially ongoing.

Source: <https://www.nceo.org/employee-ownership-blog/new-data-on-employee-ownership-and-economic-well-being>

# Direct evidence in research data

Comparing *currently employed* respondents overall who have an ESOP to those who do not:



**3 years** longer median job tenure (8.5 vs. 5.5 years).

**23%** higher median income from wages (\$65,000 vs. \$53,000).

**45%** higher median net household wealth (\$66,800 vs. \$46,000).

All the respondents were ages 36 to 42 when interviewed most recently in 2021.

Source: <https://www.nceo.org/employee-ownership-blog/new-data-on-employee-ownership-and-economic-well-being>

# POLLING QUESTION 2

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Has employee ownership had a direct impact on you?

We will allow for more time to answer this question. We value hearing from you ! Please use the free response on your screen to share with us.



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# ESOPs and the Retirement Savings Crisis

Many workers are not able to get ahead enough to be able to save for retirement, no matter how hard they work.

Table 2: Percentage of those who reported zero savings across wage categories and their median account balances

	Less than \$0.99	\$1- \$14,999	\$15,000- \$29,999	\$30,000-\$ 49,999	\$50,000-\$ 74,999	\$75,000-\$ 99,999	\$100,000- \$149,999	Over \$150,000	All working age adults
Percentage of those who reported 0 savings within the wage group	76%	87%	77%	59%	43%	26%	17%	7%	43%
Median account balance	\$0	\$0	\$0	\$0	\$5,700	\$15,200	\$45,000	\$258,000	\$5,000

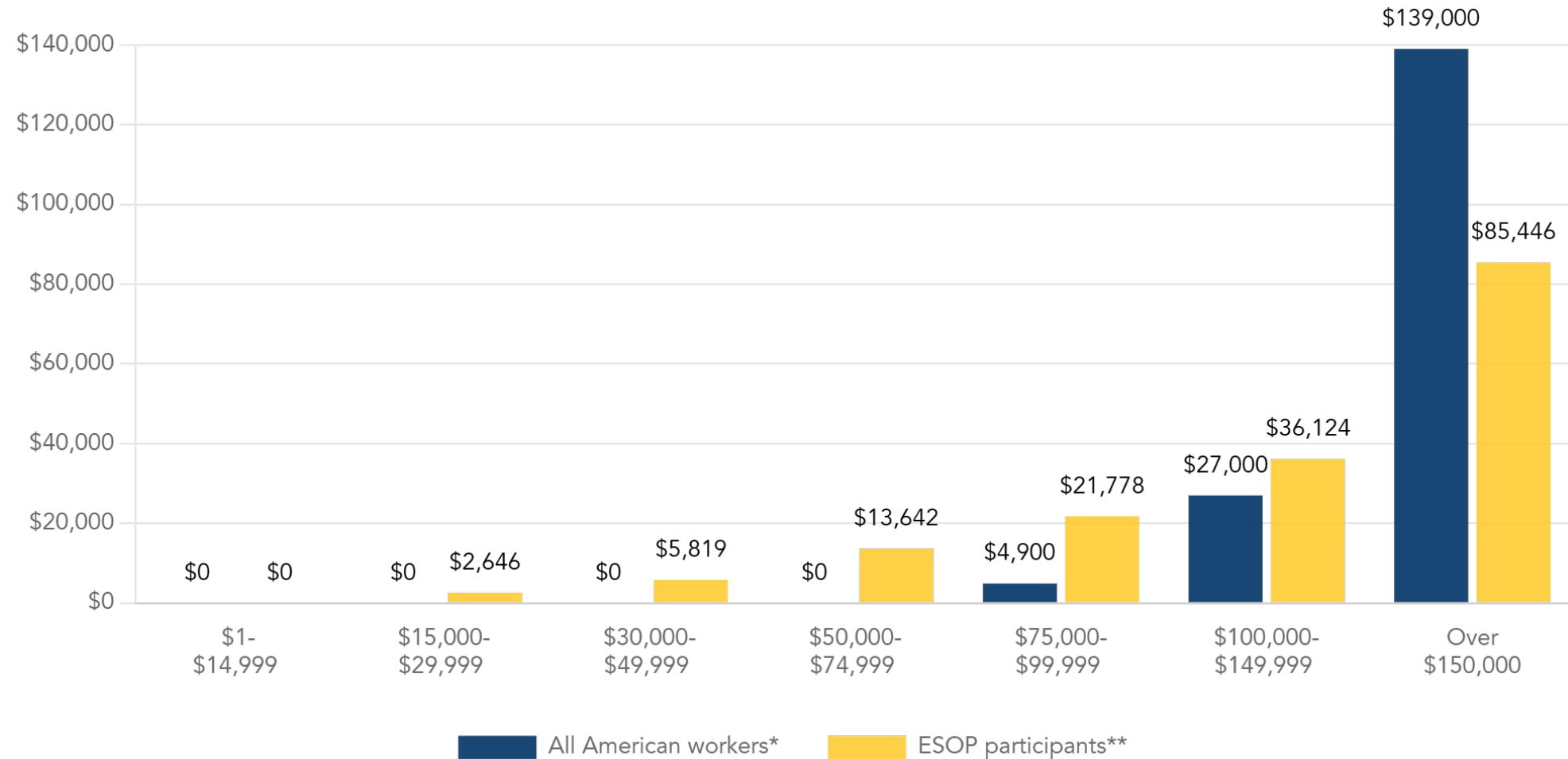
Source: [The Retirement Savings Crisis and the Role of ESOPs](#)

The median retirement account balance for employed workers has risen by only \$1,450 in the last 10 years.



Source: [The Retirement Savings Crisis and the Role of ESOPs](#)

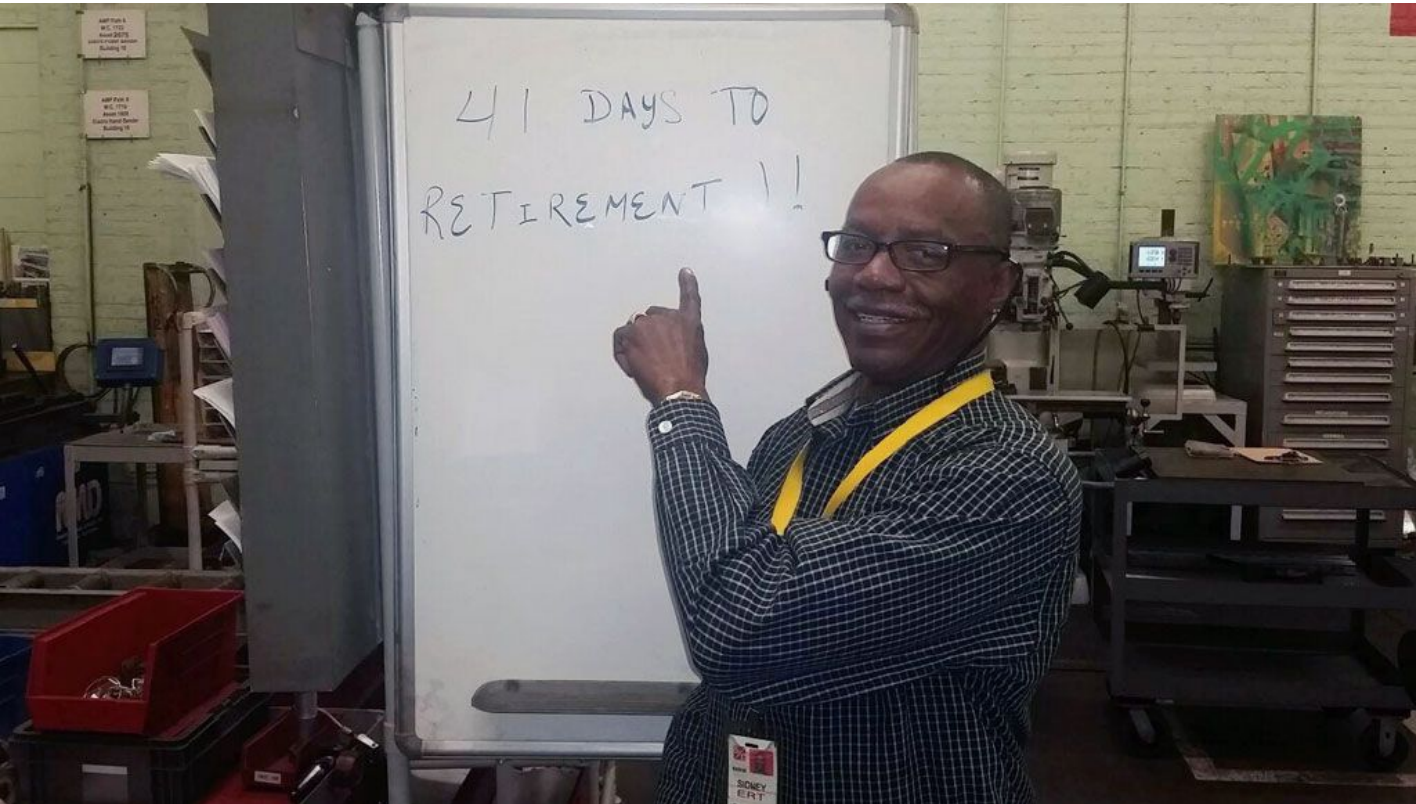
We can see the particular ESOP impact for lower and middle income workers.



Source: [The Retirement Savings Crisis and the Role of ESOPs](#)

# Sidney Bolton S&C Electric, Chicago, IL

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“Thanks to the ESOP, as well as the pension benefits rolled over into a KSOP, I will be able to retire this year, a full two years ahead of schedule.

Now after 20 years and am looking forward to playing golf, shooting pool, volunteering at the hospital, and, more than anything, spending time with my wife, kids, and my grandkids, making sure I can instill love and decency in them. And I get to start all of this two years early, thanks to S&C.”

# POLLING QUESTION 3

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Did anything you learned today surprise you?

We will allow for more time to answer this question. We value hearing from you ! Please use the free response on your screen to share with us.



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