Glossary of ESOP Terms

Allocation: Each year, the ESOP puts assets, typically in the form of stock or cash, into individual accounts of participants that meet the eligibility requirements. Your portion of the contribution is called an allocation. The size of the participant's allocation is determined based on the plan's allocation formula.

Contribution: The company can make a cash deposit, or a contribution, into the ESOP. The contribution can be used to buy back shares, build up a cash reserve in the ESOP for future use, or repay a loan. Contributions into the ESOP are tax deductible.

Distribution: Companies have different rules about how accounts are paid out after you leave the company, also known as your distribution.

Eligibility: This refers to the minimum requirements that must be met before an employee becomes an ESOP participant. To get into the plan, you need to meet the company requirements for hours of service, length of employment, and age. The standard rules are 1000 hours of service, one year of employment and 21 years of age.

Employee Ownership Month (EOM): Employee Ownership Month is an annual celebration of everything that makes employee ownership great, taking place every October, dating back to the 80s.

ESOP: Employee Stock Ownership Plan. An ESOP is both a business ownership structure and a qualified retirement plan that enables the employees of the company to own stock through a trust.

Forfeitures: If an employee leaves prior to becoming 100% vested, the employee will keep whatever percentage of the account they have earned and the rest of the account balance is redistributed to everyone else. These redistributed shares are called forfeitures.

Ownership: Employee ownership is a term for any arrangement in which a company's employees own shares, or the right to the value of shares, in their company.

Statement: Issued annually, a statement shows you what is in your account in the value of cash and/or stock. The statement also includes current vesting progress and the vested balance.

Trustee: As a trust, the ESOP is governed by either a single person, committee, or external firm appointed by the board. This person or entity to whom the ESOP is entrusted is called the trustee. The trustee has to follow a very specific, strict set of federal rules enforced by the Department of Labor. These rules require the trustee to run the plan to maximize the long-term value of plan assets for the beneficiaries–in this case, you and your fellow ESOP participants. This includes making sure the valuation is done properly and all the rules for the ESOP are followed.

Valuation: Each year, the ESOP trustee hires an independent appraiser to determine how much the stock is worth, a process known as valuation. There are many factors that go into this process, including the company's financial performance and strategies, industry and economic trends, and projection of future earnings. After analyzing this data, the appraiser calculates what the price per share would be if your company were for sale. This valuation ensures a fair market value is paid to departing employees when they cash in their ESOP account balances.

Vesting: As you work for the company, you get an increasing right to what is in your account (a process called "vesting"). By law, this process can take no more than six years.