

ESOPs and 401(k) Plans

Similarities and Differences

Both ESOPs and 401(k) plans are covered by the same federal law, the Employee Retirement Income Security Act (ERISA), which means many of the rules are the same for both types of plans. Overall, the plans have a lot in common and can both be excellent tools to provide for your future financial security. The NCEO conducted a study sponsored by ESCA in 2021, and the results show that 80% of S corporation ESOP companies also offer a 401(k) plan, either separate from or combined with the ESOP.

	401(k)	ESOP
Retirement plan	Yes	Yes
Company purpose	Employee benefit	Employee benefit; buyer of company
Company's annual contribution	4% of payroll	8–10% of payroll
Employees' annual contribution	Voluntary	Very rare
Driver of value	Investments	Company success; time
Diversified?	Yes	No (until approaching retirement)
Ownership culture	Possible, but rare	Voluntary; common

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