Employee Stock Ownership Plans Are More Common Than Ever – April 2019

As of 2018, the National Center for Employee Ownership estimates that there are almost 7,000 employee stock ownership plans (ESOPs) covering more than 14 million employees. The NCEO also estimates that employees now control roughly 8% of corporate equity through ESOPs, stock bonus plans, and profit sharing plans.

What is an ESOP?

An Employee Stock Ownership Plan (ESOP) is a company funded qualified defined contribution plan that invests primarily in the company stock of the employer. These plans are often used as part of a corporate finance strategy, including buy out of existing owners, borrow money to acquire new assets or provide an employee reward system. An ESOP is part of an employee's compensation for the work they provide the company. This allows business owners to use ESOPs to help direct the focus of the plan participants to the performance of the corporation and to help participants share in price appreciation.

How Do They Work?

For an ESOP, companies set up a trust fund for the employees. The company then contributes either cash to buy company stock, contribute shares to the plan directly or has the plan borrow money in order to purchase shares. If the company has the plan borrow money, the company will make contributions to the plan to enable it to repay the loan.

Similar to other qualified retirement plans, the plan may utilize a vesting schedule. When an employee retires or resigns, the company purchases the vested shares from the employee. This money then goes to the employee in a lump sum or equal periodic payments. After the company purchases the shares and the employee receives payment, the stocks are redistributed or voided. An employee who resigns or retires can only take the cash payment, not the shares of stock.

What is the Value of Having an ESOP?

When combined with workplace participation programs, ESOPs have been shown to help companies obtain substantial gains and faster growth while providing the company and employees with various tax benefits.

A significant benefit of ESOP is that the various contributions in the plan are tax deductible, including:

- Stock contributions
- Cash contributions
- Contributions used for loan repayment

Another benefit of ESOPs is that employees tend to fare well and in many cases, they end up with more retirement assets when compared to workers in non-ESOP companies. To learn more about ESOPs and how they can benefit your business, contact the experts at Dunbar, Bender, & Zapf today!