


 Go

Pictured: employee-owners of New Belgium Brewing

A nonprofit membership organization providing unbiased information and research on broad-based employee stock plans

ESOP (Employee Stock Ownership Plan) Facts

As of 2015, we at the National Center for Employee Ownership (<http://www.nceo.org/>) (NCEO) estimate there are roughly 7,000 employee stock ownership plans (ESOPs) covering about 13.5 million employees. Since the beginning of the 21st century there has been a decline in the number of *plans* but an increase in the number of *participants*. There also are about 2,000 profit sharing and stock bonus plans that are substantially invested in company stock and are like ESOPs in other ways. In addition, we estimate that roughly 9 million employees participate in plans that provide stock options or other individual equity to most or all employees. Up to 5 million participate in 401(k) plans that are primarily invested in employer stock. As many as 11 million employees buy shares in their employer through employee stock purchase plans. Eliminating overlap, we estimate that approximately 28 million employees participate in an employee ownership plan. These numbers are estimates, but are probably conservative. Overall, employees now control about 8% of corporate equity.

Although other plans now have substantial assets, most of the estimated 4,000 majority employee-owned companies have ESOPs.

Major Uses of ESOPs

About two-thirds of ESOPs are used to provide a market for the shares of a departing owner of a profitable, closely held company. Most of the remainder are used either as a supplemental employee benefit plan or as a means to borrow money in a tax-favored manner. Less than 10% of plans are in public companies. In contrast, stock option or other equity compensation plans are used primarily in public firms as an employee benefit and in rapidly growing private companies.

Employee Ownership and Corporate Performance

A 2000 Rutgers study found that ESOP companies grow 2.3% to 2.4% faster after setting up their ESOP than would have been expected without it. Companies that combine employee ownership with employee workplace participation programs show even more substantial gains in performance. A 1986 NCEO study found that employee ownership firms that practice participative management grow 8% to 11% per year faster with their ownership plans than they would have without them. Note, however, that

Resources at NCEO.org

Our main Web site at nceo.org has hundreds of pages with information on ESOPs, including articles, publications, meetings, online training, membership information, and more. Below are links to selected articles and publications that elaborate on concepts presented in the article on this page.

- » How an Employee Stock Ownership Plan (ESOP) Works
(<http://www.nceo.org/articles/esop-employee-stock-ownership-plan>)
- » ESOPs in S Corporations
(<http://www.nceo.org/articles/esops-s-corporations>)
- » Steps to Setting Up an ESOP
(<http://www.nceo.org/articles/setting-up-esop>)
- » Using an Employee Stock Ownership Plan (ESOP) for Business Continuity in a Closely Held Company
(<http://www.nceo.org/articles/esop-business-continuity>)
- » Largest Study Yet Shows ESOPs Improve Performance and Employee Benefits
(<http://www.nceo.org/articles/esops-improve-performance-employee-benefits>)
- » Understanding ESOPs
(<http://www.nceo.org/Understanding-ESOPs/pub.php/id/41/>) (book)
- » Leveraged ESOPs and Employee Buyouts
(<http://www.nceo.org/Leveraged-ESOPs-Employee-Buyouts/pub.php/id/20/>) (book)
- » The ESOP Repurchase Obligation Handbook (<http://www.nceo.org/ESOP-Repurchase-Obligation/pub.php/id/18/>) (book on ESOP repurchase liabilities (<http://www.nceo.org/ESOP-Repurchase-Obligation/pub.php/id/18/>))

participation plans alone have little impact on company performance. These NCEO data have been confirmed by several subsequent academic studies that find both the same direction and magnitude of results.

How ESOPs Work

Companies set up a trust fund for employees and contribute either cash to buy company stock, contribute shares directly to the plan, or have the plan borrow money to buy shares. If the plan borrows money, the company makes contributions to the plan to enable it to repay the loan. Contributions to the plan are tax-deductible. Employees pay no tax on the contributions until they receive the stock when they leave or retire. They then either sell it on the market or back to the company. Provided that an ESOP owns 30% or more of company stock and the company is a C corporation, owners of a private firm selling to an ESOP can defer taxation on their gains by reinvesting in securities of other companies. S corporations can have ESOPs as well. Earnings attributable to the ESOP's ownership share in S corporations are not taxable.

In other plans, approximately 800 employers partially match employee 401(k) contributions with contributions of employer stock. Employees can also choose to invest in employer stock. In stock option and other individual equity plans, companies give employees the right to purchase shares at a fixed price for a set number of years into the future. (Do not confuse stock options with U.S. ESOPs; in India, for example, employee stock option plans are called "ESOPs," but the U.S. ESOP has nothing to do with stock options.)

How Employees Fare

Participants in ESOPs do well. A 1997 Washington State study found that ESOP participants made 5% to 12% more in wages and had almost three times the retirement assets as did workers in comparable non-ESOP companies.

According to a 2010 NCEO analysis of ESOP company government filings in 2008, the average ESOP participant receives about \$4,443 per year in company contributions to the ESOP and has an account balance of \$55,836. People in the plan for many years would have much larger balances. In addition, 56% of the ESOP companies have at least one additional employee retirement plan. By contrast, only about 44% of all companies otherwise comparable to ESOPs have any retirement plan, and many of these are funded entirely by employees.

Examples of Major ESOP Companies

ESOPs can be found in all kinds of sizes of companies. Some of the more notable majority employee-owned companies are Publix Super Markets (160,000 employees), Lifetouch (25,000 employees), W.L. Gore and Associates (maker of Gore-Tex, 10,000 employees), and Davey Tree Expert

- » [S Corporation ESOPs](http://www.nceo.org/S-Corporation-ESOPs/pub.php/id/25/) (book)
- » [S Corporation ESOP Traps for the Unwary](http://www.nceo.org/S-Corporation-ESOP-Traps-Unwary/pub.php/id/452/) (issue brief)

Other Stock Plans

- » [Stock Options, Restricted Stock, Phantom Stock, Stock Appreciation Rights \(SARs\), and Employee Stock Purchase Plans \(ESPPs\)](http://www.nceo.org/articles/stock-options-restricted-phantom-sars-espps)
- » [Equity Incentives in Limited Liability Companies \(LLCs\) \(aka Limited Liability Corporations\)](http://www.nceo.org/articles/equity-incentives-limited-liability-company-llc)

Statistics and Research

- » [A Statistical Profile of Employee Ownership](http://www.nceo.org/articles/statistical-profile-employee-ownership)
- » [Key Studies on Employee Ownership and Corporate Performance](http://www.nceo.org/articles/studies-employee-ownership-corporate-performance)
- » [The Employee Ownership 100: America's Largest Majority Employee-Owned Companies](http://www.nceo.org/articles/employee-ownership-100)
- » [How ESOPs, Profit Sharing Plans, and Stock Bonus Plans Differ as Employee Ownership Vehicles](http://www.nceo.org/articles/esops-profit-sharing-stock-bonus-plans)

About the NCEO and This Page

The National Center for Employee Ownership (<http://www.nceo.org/>) (NCEO), founded in 1981, is a private, nonprofit membership and research organization that serves as the leading source of accurate, unbiased information on ESOPs, equity compensation plans such as stock options, and ownership culture. This domain (ESOP.org) was our Internet identity until the beginning of 1996, when we moved our main site to NCEO.org.

(7,800 employees). Companies with ESOPs and other broad-based employee ownership plans account for well over half of Fortune Magazine's "100 Best Companies to Work for in America" list year after year.

For More Information

Our main Web site at [NCEO.org](http://www.nceo.org) has a wealth of resources, such as:

- [Articles on ESOPs and equity compensation](http://www.nceo.org/main/articles.php)
(<http://www.nceo.org/main/articles.php>)
- [Dozens of Webinars](http://www.nceo.org/main/webinars.php) (<http://www.nceo.org/main/webinars.php>) and [in-person meetings](http://www.nceo.org/main/meetings.php) (<http://www.nceo.org/main/meetings.php>) on ESOPs
- [Dozens of publications on ESOPs, equity compensation, and ownership culture](http://www.nceo.org/main/publications.php) (<http://www.nceo.org/main/publications.php>)
- [Speaking and introductory consulting services](http://www.nceo.org/main/consulting-speaking.php)
(<http://www.nceo.org/main/consulting-speaking.php>)
- [See our home page for more ESOP resources](http://www.nceo.org/) (<http://www.nceo.org/>)

The National Center for Employee Ownership (NCEO) · 1629 Telegraph Ave., Suite 200 · Oakland, CA 94612 · Phone 510-208-1300 · Fax 510-272-9510 · Web site <http://www.nceo.org/> (<http://www.nceo.org/>) · Email: customerservice@nceo.org. All material on this site is © 2016 by NCEO.