

More than 50 Organizations Join Together in New ‘Expanding ESOPs’ Coalition to Substantially Broaden Wealth-Building Opportunities for American Workers

WASHINGTON – A new coalition of employee ownership advocates, including more than 50 major foundations, financial institutions, advisory firms, law firms, and advocacy groups, has launched [Expanding ESOPs](#) to dramatically increase the use of employee stock ownership plans (ESOPs).

ESOPs are a powerful, but underused, means of providing front-line workers with the benefits of employee stock ownership. Expanding ESOPs seeks to supplement the existing ESOP model and to make ESOPs more accessible to businesses of all sizes and across all industries. This would give workers a chance of owning a slice of every company in America, and could transform the economy by addressing the lack of worker wealth, low employee engagement levels, and widespread financial illiteracy across the country.

“Employee ownership gives workers a stake in their companies and a seat at the table,” said **Pete Stavros, the founder of Expanding ESOPs and [Ownership Works](#), an organization whose work to expand workers’ equity in companies across the country was recently featured on 60 Minutes.** “Polling clearly shows that Americans across the political spectrum want to see workers participate in company ownership to a far greater extent, and ESOPs represent our best shot of achieving that goal.”

With the passage of the [Employee Retirement Income Security Act](#) (ERISA) in 1974, Congress established ESOPs under federal law. While the ESOP model has proven to be an effective and significant wealth creation tool for participating workers, new ESOP formations remain relatively low at around 250 per year. New ESOP formations tend to involve smaller businesses, with only ~4% of new ESOPs having more than 500 employees. New ESOPs also tend to be concentrated in a handful of industries, with 75% falling within the industrial and service sectors.

“ESOPs have been around a long time and they are an incredible wealth creation tool for workers who have been able to participate, but we simply haven’t had enough of them,” said **Corey Rosen, who is the founder of the non-profit [National Center for Employee Ownership](#)** and who has closely followed the coalition’s work. “ESOP participants and their families have 92% greater net household wealth than those without comparable benefits. Company stock is the greatest wealth-building asset ever created, so expanding ESOP participation to a significant portion of the U.S. workforce could ameliorate the destructive trend in the concentration of wealth.”

“In the pursuit of a more inclusive economy that puts workers first, we cannot settle for the status quo,” said **Darren Walker, President of the Ford Foundation.** “We need to take bold, innovative approaches to champion new models for business that can unlock potential and generate wealth for all. I applaud this effort to expand on ways to bring workers to the table and take a stake in their companies and their futures.”

As part of its launch, Expanding ESOPs unveiled a [new website](#) to educate the public and policymakers about ESOPs and highlight how workers and companies alike benefit when workers have an opportunity to own a stake in their companies.

GIVING PARTIAL ESOPs A BOOST

In general, there are two types of ESOPs: one where employees own 100% of the company (“100% ESOPs”) and one where workers own a part of the business -- which might range from single-digit ownership to a more substantial minority interest (“Partial ESOPs”). 100% ESOPs can be incredibly effective, but their applicability is naturally limited to situations where owners want to sell 100% of their business, are willing to take on significant incremental debt, are willing to work within regulatory limitations, and are willing to accept only a portion of the purchase price up-front (as the ESOP will need help financing the purchase).

While Partial ESOPs have much broader potential applicability, particularly amongst scaled businesses, they have been in decline for a variety of reasons, including statutory and regulatory complexity, limited liquidity at closing for selling shareholders, and long transaction timelines. Additionally, the available corporate tax incentives have declined over time, and today are insufficient to inflect the number of Partial ESOPs in our economy.

Expanding ESOPs aims to reverse the decline in Partial ESOPs while maintaining 100% ESOPs in their current form. This will allow the ESOP model to encompass a much broader array of businesses and situations and, in turn, impact many more workers.

“To realize the full potential of employee ownership in America, it makes sense to supplement the existing, well-established 100% ESOP model with a Partial ESOP model that is effective and will be broadly adopted,” said **Joseph Blasi, J. Robert Beyster Distinguished Professor and Director of the [Institute for the Study of Employee Ownership and Profit Sharing](#) at the School of Management and Labor Relations at Rutgers University**. “Our research demonstrates the importance of achieving this goal – worker ownership of a portion of a company can lead to significant wealth creation and, when scaled across the economy, could fundamentally shift how the rewards of capitalism are shared.”

INCREASE IN WEALTH, DECREASE IN TURNOVER

According to the [Institute](#), employees in the 6,247 corporations with ESOPs have total wealth of \$2.09 trillion, or an overall average of ~\$165,000 per employee. This wealth generation has proven consistent even for Partial ESOPs owning small percentages of large businesses.

The benefits of ESOPs also extend to the companies themselves, with the average annual rate of voluntary employee turnover decreasing by ~85% when broad-based employee ownership is combined with a supportive and empowering culture.

“ESOP ownership can be a significant win for all stakeholders of a company, including both employees and business owners,” said **Kim Blaugher, the Executive Director of The [Beyster Institute at UC San Diego’s Rady School of Management](#)**. “However, the overall benefit to our society and economy has been limited by current ESOP structures’ narrow applicability to a small portion of corporate America. By broadening the scope of where ESOPs can be used, we have an opportunity to generate a meaningful impact to workers and companies alike.”

CORE PRINCIPLES OF AN ESOP EXPANSION

To expand the use of ESOPs and ensure more workers can participate, the coalition introduced a set of [core principles](#), which would be reflected in any potential plan to expand the number of Partial ESOPs:

- Align tax incentives as to be suitable for partial ESOPs,
- Offer safe-harbor guidelines in situations where there's a market-based valuation-check to ensure that workers in new ESOPs are treated fairly and to avoid undue litigation risk,
- Give disproportionate ESOP benefits to front-line workers (as opposed to highly-compensated executives),
- Protect the spirit of the ESOP by assuring workers receive meaningful value in situations where companies utilize tax incentives,
- Provide the ESOP at no cost to the employees, and ensure that the ESOP is not the sole retirement plan for workers,
- Allow workers to access a portion of their ESOP value before retirement without penalty, and
- Maintain the current structure and benefits that have been highly effective for existing ESOPs (particularly 100% ESOPs)

“Greater levels of employee ownership, particularly through the ESOP model, combined with building an ownership culture, have the potential to create tremendous opportunities and benefits for working class Americans through significant wealth creation, improved engagement and voice in the decisions of their working lives, and better alignment between employees and shareholders,” said **Wilma Liebman, former three term member of the National Labor Relations Board and chair under President Obama.**

OVERWHELMING BIPARTISAN SUPPORT FOR EMPLOYEE OWNERSHIP

The coalition also revealed [polling data](#) that shows that once voters are informed about broad-based employee ownership, the concept is met with overwhelming support across the political spectrum:

- 96 percent support with base Democratic voters,
- 84 percent support with base Republican voters, and
- 86 percent support with Independents

“There aren’t many policies Democrats, Republicans and Independents agree on, but generating wealth for workers and helping companies succeed hits a sweet spot that brings everyone together,” said **Daniel Massey, who was brought on to lead campaign strategy and communications for Expanding ESOPs, and who, for more than a decade, has helped the Fight for \$15 campaign put more than \$150 billion in the pockets of America’s workers.** “The potential to expand employee ownership in a scaled way is a rare opportunity to create meaningful change in an increasingly divisive environment.”

Over their approximately 50-year history, ESOPs have created meaningful wealth for front-line workers and improved the performance of companies. To live up to their full potential, we need to supplement existing ESOP models to better address a more diverse and scaled set of businesses. Expanding ESOPs members have dedicated their careers to spreading the ESOP model across the country, and believe that by expanding the applicability of ESOPs, we can truly create a more vibrant and inclusive American economy.

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ABOUT EXPANDING ESOPS

Expanding ESOPs is a coalition that sees ESOPs as a powerful yet underused tool to create meaningful wealth building opportunities for workers, while also extending significant benefits to companies. ESOPs are a positive force in our economy, but various constraints are preventing

them from achieving their full potential. Expanding ESOPs is endeavoring to remove these constraints by educating the public and researching potential public policy solutions, which together can open a path to a more vibrant American economy.

The Expanding ESOPs coalition includes without limitation: Apis & Heritage Capital Partners, ArentFox Schiff, Argent Trust, The Aspen Institute, BDO, Berman Hopkins, The Beyster Institute at UC San Diego's Rady School of Management, Blank Rome, BlueRidge ESOP Associates, BMO, The Bipartisan Policy Center, Bryan Cave Leighton Paisner, Certified EO, Chartwell Financial Advisory, Deloitte, Devine Millimet, Empire Valuation Consultants, The Employee Ownership Expansion Network, ESOP Law Group, EY, Faegre Drinker, Ford Foundation, GreatBanc Trust Company, Holland & Hart, Holland & Knight, Kirkland & Ellis, Katten Muchin Rosenman, Kreig DeVault, Kroll, Loop Capital, McDermott Will & Emery, N&G Legal, PNC, Polsinelli, Principal, Project Equity, Prudent Fiduciary Services, RBC, Ropes & Gray, RSM, Stout, Summit Fiduciaries, TI Trust, UBS, Vedder Price, Ventura Trust, Verit Advisors, and Wells Fargo