Is An ESOP Better Than Other Retirement Programs?

At Ventura, we like to answer that question with a resounding YES!

But that is not much of an explanation… Let's talk about pensions and retirement.

With the industrial revolution, and the move to cities, people long-lived their older years in families on the land. To attract needed employees, employers began to offer pensions for long service. These began with public employees like police and teachers. To complete, private industry followed suit.

Labor unions popularized pensions, and many industries which required heavy labor wanted older employees to be routinely replaced with younger, stronger participants. Plus, people wanted a guaranteed retirement income, and plans which offered that income were born. Teachers, military retirees, and many public employees retain these traditional pension benefits.

In 1978 a new retirement benefit was created by federal law. This 401K plan is very popular and well known across the US. The main difference between a traditional retirement plan and a 401K is that the funding for an individual's retirement is shifted from the employer to the employee. A promised match of some amount each year can only be accessed by the employee depositing their own money in the plan.

In 1980, about 60% of all workers were covered by a company funded pension. The change to 401K plans has reduced this to 4%. The pension plans have been replaced by the 401K, and now 68% of American workers have access to this benefit.

Why do only half of workers with a 401K option participate in this retirement savings plan? Simply put, they do not think they can afford it. Over a quarter of employees earn less than $35,000 a year. Half of the country earns $60,000 or less.

The average 401K balance for all workers is $130,000. This includes very high value plans. The Median value is only $33,000, meaning the half of all 401K participants have only a small amount saved for retirement. This balance is paid at least 75% by the participant's own income. The average participant's ESOP balance is slightly larger, but NONE of that amount is paid by the employee. More than 90% of ESOP owned companies also offer 401K plans. So, an employee can double their retirement benefits by participating in both but paying only for one!

Also, ability to contribute, real or perceived, does not affect ESOP contributions or growth. Your annual stock allocations happen whether you have higher living expenses or some type of financial emergency. The Employee never contributes anything!

Finally, there are about 6,500 ESOPs nationwide, and they hold about $1.6 Trillion in assets. There are about 600,000 401K plans, with about $7 Trillion in assets.

Let's do the math:

6,500 ESOPs with $1.6 Trillion in assets = $246 million per plan

600,000 401K's with $7 trillion in assets = less than $12 Million per plan

Which plan would you choose?

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