How Does An ESOP
Help Pay For My Retirement?

An ESOP provides an exit strategy for owners who can sell the company to a retirement trust held for the benefit of their employees. The purchase of company stock is generally financed by a bank and a note from the sellers, and the payments on these loans are made from future company profits.

The shares are transferred to the ESOP Trust. The sale price of the company, less the loan, is the equity realized by the ESOP as soon as the sale is completed. The employees earn shares through their labor, but contribute no money, no personal notes, no responsibility for the actions of the company.

The employees are allocated more shares each year, based on their individual salaries. Additionally, the equity in the shares goes up as the loans are paid down.

Here is an example, using small numbers to make it all easier to understand.

Let's say a company sells all the corporate shares to an ESOP for $1 Million dollars, represented by a bank loan.

Each year the note is repaid by a payment from the company of $100,000 in principle plus interest.

In year one, the year of the sale, a share is valued at $10 net of all loans against it. After one year, the payment of the loan adds equity, and the share is worth $11. This addition of equity happens every year. After 5 years, just from payment of the loan, the stock may be worth more because the loan has been reduced by half. Each year each employee gets more shares, so the value grows and the number of shares grow. Upon retirement the company buys the share back from the employee and the cash is available for retirement living expenses. If the value of the company also increases, the value of each share also goes up. So, an employee gains retirement savings from the following events:

- Initial sale to the ESOP and first allocation of shares
- Pardon of loans and creation of equity
- Additional shares for each year of service
- Potential increase of the value of share because of growth of the company

Add this all up and you have the total amount of retirement resources your employer has provided to you without requiring you to contribute a penny!