VENTURA
ESOP Fiduciary Services

ESOP Terminology

ESOPs can be complicated! Here are some common terms which describe the plans, the benefits, and the operation of an ESOP.

ESOP:

Stands for Employee Stock Ownership Plan. An ESOP is a retirement plan, designed to pay you after a certain age, which is funded by your shares in your employer.

ESOP Trustee:

An ESOP trustee represents the participants in the negotiation to sell the company to the ESOP, and manages annual valuations and other duties, taking care of all the work and oversight of the ESOP on behalf of the participants.

Qualified Retirement Plan:

This is a plan which can fund all or part of living expenses after you retire. There is a federal law known as ERISA which defines most retirement plans, participant rights and protections. An ESOP is a type of qualified retirement plan.

ERISA:

The **Employee Retirement Income Security Act of 1974** (ERISA) is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans.

Plan documents:

The Plan is the document that defines the terms of your ESOP retirement plan and includes rules for participation and receipt of benefits. Most plans are similar, but every company has some options for the terms of their plan.

Participant:
An employee who, by the terms of the plan, is eligible to receive the benefits of an ESOP.

Annual Valuation:
Every year the ESOP shares are valued by a valuation expert to determine the value of the stock at that time. That value will determine the amount of money in your ESOP retirement account.

Statement:
Every year after your ESOP is established, the shares of the corporation are valued. As a participant you receive a statement of the value of individual shares. The value times the shares in your account represent the value of your retirement account.

Share Value:
Every year the value of your employer as a company is valued by professionals experienced in this activity. The value of any company, and the value of the shares, can go up and down. Generally, payment of debt increases the value of shares, just like the equity in a house goes up as your mortgage goes down. The success or lack of success of the company also directly affects share value.

Diversification:
As an ESOP participant, your retirement benefits are dependent on the value of the stock in your employer's company. However, as you approach retirement age, you will have options to invest in other stock. All of this will be explained when you reach that age.

Repurchase:
When you retire or leave the company, your stock will be purchased by the company and the proceeds of that purchase are yours to invest or add to another retirement account. You cannot continue to be an ESOP participant after you retire.

TPA:
TPA is short for Third Party Administrator. Someone must determine who is an eligible participant for a plan, and how many shares they have earned. That is the TPA. The TPA also determines whose shares will be repurchased upon retirement or other events, and make sure that payment for those shares is paid to the appropriate person in the right amount.