So, your Company is Owned by an ESOP…Now What?

Your company has sold to the ESOP. You, an employee, are one of the new owners. There was lots of activity around the sale. There may even have been a party for the employees, with cake.

But the next Monday, you did the same job, worked for the same boss, and got paid the same wage. **What's the big deal?**

When you are a participant in an ESOP, you are a shareholder in the company. You earn your shares by your job in the company and the years that you work there. Your role as shareholder is substantially like your role as a shareholder in any company. You may buy stock or invest in a stock fund. This gives you a similar role to being a shareholder in an ESOP owned company.

As a shareholder, you have certain rights, but they are limited. You do not have rights to directly define how the company is run.

Every corporation is owned by shareholders and run, at the highest level, by a Board of Directors. It is the shareholders job to elect the Board. It is the job of the Board of Directors to oversee how the company is doing and hire and supervise the officers of the company. The officer may include the President and Vice Presidents, or the top management may be called CEO and CFO. In any case, they are hired and supervised by the Board.

All of this is true for family held small business corporations, multinational companies, and your ESOP owned businesses.

When the Board is elected, people who want to be on the Board, or who are suitable candidates, are presented to the shareholders for election. Board members are generally elected to multiyear terms, and many times the board members are elected in different years. As a shareholder, you are entitled to vote for Board members. However, you often do not vote directly, but assign your vote to someone who attends the meeting and votes for you. That assignment is called a proxy.

In an ESOP owned company, you are the shareholder, but all the shares are held in a trust. **Why?** Because there is no market for the stock in a small business with a limited number of shareholders. Also, you do not want stock ownership scattered to strangers because of divorces or passing along property by a will. Finally, on retirement, your stock is bought back by the company, and the proceeds of that sale is available for your retirement.

In an ESOP owned company, the trustee votes all the shares for the member of the Board of Directors that are standing for election at any one time. It is the duty of the trustee to make sure the Board does its job to manage the company, and to make fair and reasonable decisions. The trustee is usually NOT a member of the Board but has a right to see Board reports and attend Board meetings.

If you have any questions about Board membership or Board elections, you are welcome to contact your ESOP trustee.

You may think that all of this does make life very different if you are an ESOP participant. In the general management of a corporation there is little difference for you. The big difference is how your retirement fund is funded and can grow for your long-term financial security.

Usually, when the ESOP buys the company, they borrow money for that purchase. This is just like the money a person borrows to buy a house. The profit from the company is used to pay down the loan. Just like your home equity, your cash value in your ESOP account gets larger as the debt decreases. **This happens WITHOUT you having to contribute any money at all!**

Then if the value of the company increases because sales or profits increase, your shares increase in value. Imagine if you have invested in Facebook the first day stock was available. The value of those shares would have more than quadrupled in 10 years!

There isn't a guarantee that the value of the shares in your ESOP owned company will double in value or increase in value at all. In fact, there is a possibility that the company will become less profitable, and less valuable. But remember, as a participant you did not invest any of your own money in the shares. **If the value of the shares goes up, the value of your retirement fund goes up right along with it.**

Many companies owned by ESOPs grow more steadily and larger than their non-ESOP owned competitors. This may be because the employee owners take more pride, more responsibility, and more ownership, in their employer. There are studies that say ESOP owned companies have less turnover in employees, and more satisfied teams. This is just a statistic, and does not apply to every ESOP owned company, but being an owner, and participating in the financial success of the company is a powerful thing.

As an ESOP owner, you are a shareholder just like you are if you own shares of stock in Apple or Verizon. **However, there are two huge differences:**

There are millions of people who own stock in Apple. A large percentage of that stock is owned by groups, like investment companies and pension plans. Your stock holdings in Apple are just a drop in the bucket. Most ESOP owned companies are small, with only about a third of all ESOP owned companies having more than 100 employees. Your stock ownership in your ESOP is a big deal in terms of all the stock in the company that is owned by the employees. **The profits and success of this Company come directly affect your real dollars in your retirement account!**

Second, you do not work for Apple or Verizon. But you do work your ESOP owned company. Every day you go to work you can make a difference. Do your best, work hard, be creative, proactive, careful, safe, and diligent. **You and your work easily make a difference to your company's bottom line, and that bottom line makes a real, direct cash difference to you when you retire.** It is quite literally, money in the bank.