

HOW ESOPS CAN HELP NARROW THE WEALTH GAP

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INTRODUCTION

A lack of retirement security for the average American is a pressing challenge facing our country. In fact, the Aspen Institute recently named retirement security as one of the key pillars of income inequality. Employee stock ownership plans (ESOPs) are one attractive—and arguably underappreciated—potential solution to this challenge.

ESOPs broaden access to business ownership, strengthen the connection between workers' effort and the value they create, and expand access to wealth through a capitalist, market-clearing mechanism. For business owners who are motivated to help narrow the wealth gap and broaden access to business ownership—while also achieving their own succession planning, retirement, and tax goals—ESOPs present an attractive potential solution.

ASSESSING THE LACK OF RETIREMENT SECURITY IN THE UNITED STATES

Retirement security is just one aspect of the wealth gap in the United States, but it is a meaningful one. The Aspen Institute recently reported that 40 million Americans lack access to a workplace retirement savings plan, and this issue is particularly acute for low-wage workers, small-business employees, and people of color.¹ In addition, the Certified Financial Planner Board of Standards (CFP Board) found in a recent survey that approximately half of Americans aren't saving for retirement at all.²

Meanwhile, over the past three decades, the middle class in the United States has been hollowed out as U.S. labor has been increasingly subject to global competition and globalization. While the middle classes in other countries have emerged and grown, it has become increasingly difficult for U.S. wage workers to build financial security.

Many potential solutions to income inequality are being discussed. This is a positive trend because a variety of solutions will be needed given the scale of this issue. Unfortunately, many of the solutions being discussed rely more on redistributing wealth rather than creating it.

ESOPs, however, offer a potential solution to wealth inequality that isn't redistributive. More importantly, ESOPs have the potential to create additional value for society by giving more Americans access to the wealth-generating potential of business ownership.

¹ Aspen Institute, "Making retirement savings part of an equitable recovery," May 2021

² CFP Board, "2019 Retirement Preparedness Survey," April 2019

ESOPs: MEANINGFUL RETIREMENT BENEFITS FOR EMPLOYEES

ESOPs can provide valuable retirement benefits for employees in the United States. And, unlike other common retirement savings vehicles such as IRAs and 401(k)s with relatively limited employer contributions, employees' contributions aren't the primary source of funds for ESOPs. But the benefits of ESOP participation aren't just financial. As owners in the business, ESOP participants have a stake in the upside of their company, which can provide additional value and meaning for workers.

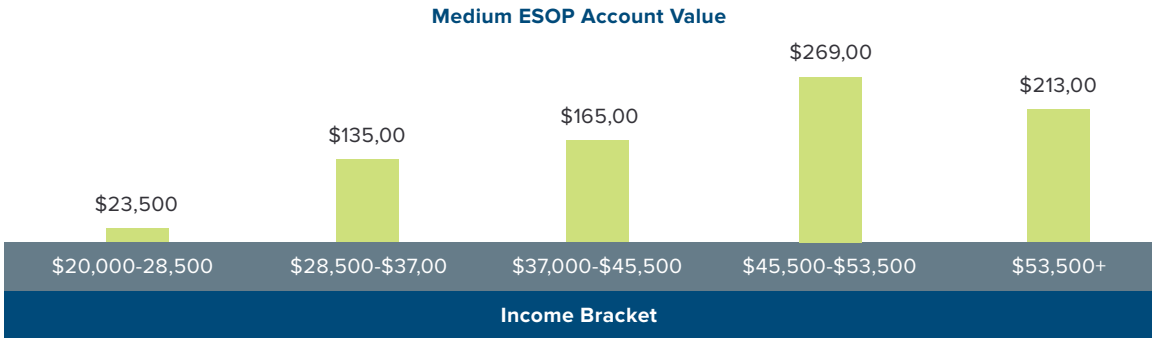
ESOPs can have a significant financial impact on a company's employees across income levels and demographics—particularly for companies that are well run and have a positive company culture. They offer the opportunity to take employees who have been hourly wage workers for their entire careers and give them a share of retirement funds that can grow substantially depending on the success of the company.

“Nearly every mature ESOP-owned company I have worked with in the last five years has had rank-and-file ESOP participants with six-figure retirement accounts. In addition to providing employees an opportunity for financial security in retirement, these companies tend to be major employers in small- to mid-sized communities and can help to keep jobs in those communities.”

– Alberto Del Pilar, Managing Director, ButcherJoseph

In 2019, the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University published a study to examine whether ESOPs can help low- and moderate-income employees build assets for retirement. It found that ESOPs create real and perceived economic stability and security for employees of ESOP-owned companies and their families. The study, which interviewed long-tenured employees with low to moderate incomes at companies with ESOPs, highlighted how significant the financial impact of an ESOP can be for wage workers, as shown in the graph below.

RUTGERS STUDY HIGHLIGHTS THE IMPACT OF ESOPs ACROSS INCOME LEVELS³



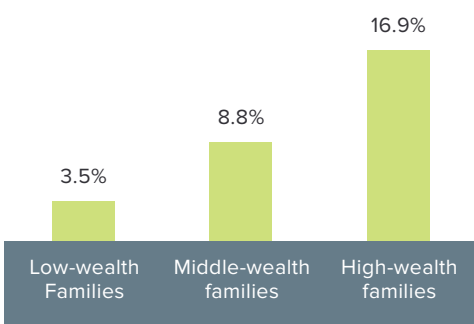
Source: Rutgers Institute for the Study of Employee Ownership and Profit Sharing

³ Rutgers Institute for the Study of Employee Ownership and Profit Sharing, [“Building the Assets of Low and Moderate Income Workers and Their Families, the Role of Employee Ownership,”](#) March 2019. The research team completed interviews at 21 companies across the United States that offer ESOPs, representing 16 states and 8 discrete sectors, ranging in size from 75 to 18,000 employees. It is important to note that this was not designed to be a representative sample of ESOP companies. Rather, the study sought to find companies across a range of industry types and geographies, enabling comparison of the experiences and asset wealth building trajectories of low- and moderate-income workers with at least 15 years’ longevity of employment with the firm. Additionally, within this group, the study sought out firms that had representation of women and people of color who were the primary but not the exclusive focus of the interviews.

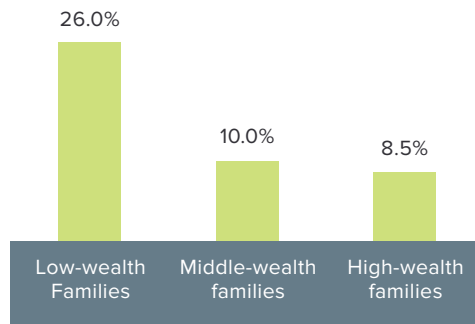
BROADENING ACCESS TO THE AMERICAN DREAM

In many ways, wealth generation through business ownership is one of the defining American stories. But access to business ownership historically has been limited to just a small percentage of the U.S. population. According to a recent Federal Reserve Study of Consumer Finances, just 3.5% of low-wealth families in the United States have employee ownership, versus 17% of high-wealth families. And for families with employee ownership, it represents 26% of family wealth for low-wealth families vs. 8.5% for high-wealth families, on average.⁴ This highlights the potential of employee ownership to serve as a source of significant additional wealth for low- and middle-income families.

PERCENT OF FAMILIES WITH EMPLOYEE OWNERSHIP STAKES⁵



SIZE OF EMPLOYEE OWNERSHIP STAKES AS % OF FAMILY WEALTH⁵



⁴ Rutgers Institute for the Study of Employee Ownership and Profit Sharing, [“Building the Assets of Low and Moderate Income Workers and Their Families, the Role of Employee Ownership,”](#) March 2019. Note that information on employee ownership stakes includes all forms of employee ownership through other types of plans, such as Employee Stock Purchase Plans, restricted stock plans, and pension plans.

⁵ Rutgers Institute for the Study of Employee Ownership and Profit Sharing, [“Building the Assets of Low and Moderate Income Workers and Their Families, the Role of Employee Ownership,”](#) March 2019. Note that information on employee ownership stakes includes all forms of employee ownership through other types of plans, such as Employee Stock Purchase Plans, restricted stock plans, and pension plans.

Not only is broader access to wealth beneficial for society, it is also good for business. Business ownership can help workers build a more meaningful connection to the work that they do and the value it creates, potentially boosting productivity and improving company morale. For example, the Rutgers study found that the ESOP model can help foster self-advocacy and advancement in the workplace, provide opportunities for leadership development and communication skills training, and lead to better internal mentorship and career coaching, among other benefits.⁶

MINDSET SHIFTS AS INCENTIVES ALIGN

During an initial rollout meeting after a ButcherJoseph-advised ESOP transaction had recently closed, ButcherJoseph's team and the company's founders were presenting the ESOP structure to the company's employees. The presentation highlighted the fact that employees were now owners in the company and would participate in its future growth. About halfway through the meeting, an hourly employee raised his hand and said:

“You mean this meeting is costing all of us money? Let’s wrap this up and get back to work!”

⁶ Rutgers Institute for the Study of Employee Ownership and Profit Sharing, [“Building the Assets of Low and Moderate Income Workers and Their Families, the Role of Employee Ownership,”](#) March 2019.



IS AN ESOP RIGHT FOR YOUR COMPANY—AND YOUR PEOPLE?

No matter what path may be best for your company and its employees, ButcherJoseph can help you explore all of your options and quantify the potential impact on the workers who have helped build your company's success. As a firm specializing in the middle market, ButcherJoseph's team of professionals has executed more than 200 transactions exceeding \$15 billion in total value.

One of the services we provide to business owners is our [Feasibility Study Analysis](#). This free service helps sellers learn more about the structure and the results for shareholders as well as the potential outcome for management and employees if you were to sell your business to private equity, a strategic buyer, or into an ESOP structure. We use the analysis to help you and your team see the potential benefits and considerations of each transaction type.