



PRAIRIEVIEW
WEALTH & TAX ADVISORS

WHAT IS AN EMPLOYEE STOCK OWNERSHIP PLAN – AND IS IT RIGHT FOR YOU?

PrairieView Wealth & Tax Advisors

Have you ever heard of an “employee-owned” company and wondered what that really meant? Thousands of companies like Smithbucklin, Brookshire Brothers and WinCo Foods offer an Employee Stock Ownership Plan to their workers as a retirement planning feature. Many employers promote their status as “employee-owned” through such plans to draw in new applicants, raise team morale and boost their reputation.

Related Podcast Episode: Planning for Retirement:
Tips and Strategies for Saving and Investing In Your Future

If your employer is adding a stock ownership plan to their benefits package, or you’re considering joining a company with the option to own stock, it’s crucial to know the unique benefits and nuances before diving in.

WHAT IS AN EMPLOYEE STOCK OWNERSHIP PLAN?

An Employee Stock Ownership Plan (also known as an ESOP) is a retirement planning benefit some companies offer to their employees, in which you can become a partial “owner” through shares.

As you work and grow with the company, your shares will – theoretically – grow in number and value. When you decide to retire or leave the company, the employer then “buys” them back from you at the fair market value of those shares.

Sometimes (but not always), companies will give their employees a number of shares of company stock for no upfront cost, after they’ve been successfully employed for a period of time. The shares are then held in a company-controlled trust fund overseen by an appointed trustee.

Many employers choose to offer an ESOP to help retain talent and keep workers motivated, and they’ve become a popular option for many corporations. In fact, it’s estimated that nearly 14 million people participate in ESOPs and/or 401(k) plans with a foundation in employer stocks – meaning that employees control about 8% of all corporate equity in the U.S.!

Vesting and Employee Stock Ownership Plans

Your vesting timeline is set by your company, and usually favors long-term commitment based on the number of years you’ve worked there. Rather than you gaining full ownership of your shares immediately, you usually earn them through a process called vesting.

Our team is available for any clarification and to answer your questions!

Gradual vs Cliff Vesting

Vesting can be gradual or follow a “cliff schedule,” both terms that describe how and when your shares become fully vested.

Gradual Vesting

You earn a percentage of your shares over time.

Example: You are given 100 shares of your company at 25% per year. You will own the following:

*Year 1 → 25 Shares
Year 2 → 50 Shares
Year 3 → 75 Shares
Year 4 → 100 Shares*

Cliff Vesting

You gain 100% ownership of your shares at a specified date.

Example: After a certain time you're 100% vested, after 3 years your shares are 100% vested

Take the time to understand your company's vesting schedule and withdrawal requirements as you incorporate an ESOP into your financial plan, so you can know when you might expect to be fully vested.

IS AN EMPLOYEE STOCK OWNERSHIP PLAN RIGHT FOR YOU?

There are a few benefits to participating in an ESOP – namely, that you have a piece of the company pie and will see a portion of the profits you helped generate. You also get to save for retirement and build a career alongside motivated peers. And when those shares come in the form of 401(k) company matching, it can seem like an easy decision to just opt in.

However, keep in mind that there's no guarantee you'll get a return on an ESOP if the shares were to lose significant value or go out of business in the future. Additionally, ESOPs don't translate into influence over company decisions, direction or culture – they are non-voting shares.

Related Podcast Episode: Retirement Refined: Balancing Rest, Activity, and Purpose:

ESOPs can also have tax implications upon withdrawal. For example, contributions to ESOPs are usually tax-deferred – so while you may not pay taxes on those funds now, you will in your retirement years.

FIND GUIDANCE FOR YOUR EMPLOYEE STOCK OWNERSHIP PLAN

We can offer personalized insights into your company's ESOP, answer your financial questions and help you create a plan for the future you want. Contact us to connect with a member of our team and get started today!

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