

Employee-Ownership Briefing Paper

Research Highlights 2

ESOPs and Employee Wealth



Ownership Associates was founded in 1987 to provide consulting, communications, survey and organizational design services for employee-ownership companies.

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One key rationale for the creation of ESOP law in 1974 was to share wealth with the workers who helped create wealth. Today, many companies use the wealth sharing aspect of their ESOPs as an effective retention and recruitment tool. But just how effective a means of distributing wealth are ESOPs?

Two studies, one conducted in Washington State and one in Massachusetts, have looked at the wealth consequences of ESOPs.

The Washington State study identified ESOP companies in the state and matched each with a group of similar companies of the same size and industrial sector without ESOPs. The survey found that:

- ESOP firms provide their employees significantly higher retirement wealth than similar non-ESOP firms—roughly 2.5 times as much.
- The average ESOP account was worth \$24,620, and all retirement assets in ESOP companies were worth \$32,213, versus an average value of \$12,735 in the non-ESOP companies. Note that the averages include *all* employees, even new employees with less than a year of tenure—retirement-age employees tend to have higher-value assets.
- ESOP wealth did not come at the cost of earnings: wages in ESOP companies are approximately 12% higher than in similar non-ESOP firms.
- Company size was negatively correlated with asset values: bigger companies had lower asset values per employee.

“Wealth and Income Consequences of Employee Ownership: A Comparative Study from Washington State,” Peter A. Kardas, Adria L. Scharf, and Jim Keogh, 1998. *Journal of Employee Ownership Law and Finance*, vol. 10, no. 4: pp. 3-52.

The Massachusetts study surveyed 60 ESOP companies and found that:

- The per participant wealth held for employees was \$39,895.
- Twelve percent of ESOPs had average participant accounts worth over \$100,000.
- 92% of the companies provided another retirement plan in addition to the ESOP.

“Census of Massachusetts Companies with Employee Stock Ownership Plans,” Adria L. Scharf and Christopher Mackin, 2000.

Caveat: The findings reported here were based on ESOP asset values in 1995 and 1999. In light of the Wall Street downturn, it is possible that asset values have declined since these figures were reported.

Conclusion: These two studies strongly suggest that ESOPs are succeeding in fulfilling their original legislative intent. They seem to be a powerful tool for sharing wealth. While individual account values vary by plan, by tenure, by pay-level and other factors, ESOPs secure a sizable sum of wealth on behalf of working people.

For more details on this topic, see www.ownershipassociates.com/esopwealth.shtm.

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