



Employee Stock Ownership Plan Solutions



Findley is a privately owned human resources consulting firm founded in 1969, with offices in Chicago, IL; Cleveland, OH; Columbus, OH; Louisville, KY; Nashville, TN; and Toledo, OH.

Our 200+ professionals help nearly 2,000 clients across the United States navigate the changing benefits landscape and successfully manage workforce issues.

The Challenge

As a business owner, you recognize that having a team of employees who run the business as if they own it is a key to your continued success. Most bonus programs reward employees based on short-term goals, which may negatively impact the long-term health of your business. It can also be difficult to attract and retain new leadership with the typical incentive programs and benefits, and these standard programs are becoming increasingly expensive. Your challenge is to find ways to reward your team of valued employees, both in the short-term and long-term, for running the business as if they own it – to ensure its continued success.

The Solution

An employee stock ownership plan (ESOP) could be the answer. An ESOP merges the tax benefits of a qualified retirement plan with corporate finance and aligns employees' retirement benefits with corporate goals. The coordination of tax-favored employee and corporate benefits is complex, but with proper planning and guidance from the Findley team of advisors, it can be a win-win scenario for both employees and plan sponsors.

Meeting ESOP Challenges:

- Help you with your personal long-term plans
- Analyze your business's plans and goals
- Focus on what your and your family's needs are now and during retirement
- Answer the question "What preparations should I make right now?"

What Is Employee Ownership?

Employee ownership is a combination of strategies that facilitate a wide range of business objectives such as stimulating business growth and gaining a competitive advantage by making employees significant stakeholders in the growth of their company's equity value.

Companies choose employee ownership to:

- Improve workforce motivation and employee retention
- Create company success-based rewards for employees
- Offer attraction and retention strategies on a cost-effective basis
- Create a controlled market for closely held shares
- Provide liquidity for shareholders
- Allow management to implement a business succession plan with little disruption of control
- Fund a buy-out with pretax dollars
- In an S-corporation, create fully tax-sheltered earnings

Why an ESOP?

ESOPs are complex plans that offer potentially valuable benefits to employers and shareholders by presenting tremendous tax planning possibilities. An ESOP is the only qualified employee benefit plan that allows the plan sponsor to borrow money on a tax-advantaged basis.

ESOPs provide several tax advantages to the business and its owners, including:

- Tax-deferred (and potentially tax-free) sale of stock by owners to the ESOP
- Fully tax-deductible business financing of ESOP stock purchases
- Deductions for certain dividends paid to ESOP participants on ESOP stock
- Tax-free income for ESOP-owned S-corporations

These plans are complex and highly regulated. Many recordkeepers simply do not have the appropriate experience, expertise, or resources to handle the specialized issues that an ESOP demands. Findley's qualified consultants will help you design, implement, and maintain your ESOP and make sure your ESOP works with your other employee benefit plans.

Is Establishing an ESOP Feasible for My Business?

In some cases, an ESOP may not be feasible. An ESOP is commonly accomplished by the business taking on significant debt through the ESOP and a significant change in ownership of the business. Also, there may be the added element of business succession and management change either now or in the near future. With any major transaction for the business, a comprehensive analysis of the qualitative and quantitative considerations is necessary. We can help.

Establishing an ESOP affects many areas of your business. In addition to your Findley consultant, an ESOP involves a team of advisors: your attorney, CPA, banker, and a business valuation expert. We can assist in assembling a group of knowledgeable advisors and can lead the team. Our blend of actuarial, legal, financial, and administrative talent makes us an invaluable resource to quantify the risks and rewards of an ESOP to the business.

What Is My Expected Future Obligation to Repurchase Shares Within the ESOP?

Every closely held ESOP company has the obligation to buy back the shares distributed to participants at the fair market value. The ESOP may repurchase these shares if the trustee agrees it is in the best interest of the ESOP participants; otherwise, the company must take on the obligation. Thus, a closely held ESOP company must determine that corporate cash flow is sufficient to satisfy this obligation or plan for other methods to fund the liability.

My Repurchase Obligation Analysis

We can conduct a comprehensive repurchase liability study to:

- Determine the future mandatory cash outlays from the employer for all ESOP requirements (e.g., contributions to satisfy debt service, repurchase obligation, dividend, and S-corporation distributions)
- Assess and plan for the obligation resulting from the distribution of closely held stock to ESOP participants and the subsequent stock repurchase by the employer or the plan
- Provide sensitivity analysis regarding various projection assumptions to demonstrate the range of expected future outcomes
- Consider funding methods to meet the repurchase obligation

How Will the ESOP Be Communicated to Employees?

Initial and ongoing communication of the ESOP with employees is a key to reaping the rewards for your business. Management and our experts form a team to discuss the benefits of ownership in the business and the features of the ESOP.

Our communications services include:

- Organizing employee meetings including "Thinking Like an Owner" sessions
- Custom-designed newsletters
- Custom-designed statements including company logos

Services to Manage Your ESOP

We will play a major role in the ongoing administration of the ESOP by providing the following services:

- Preparing the annual allocation of shares to participants, from determining the shares of employer stock to be released from suspense, to redistributing internal stock repurchases, to allocating earnings, contributions, and forfeitures
- Determining participant eligibility and amounts available for diversification of company shares, produce participant notices and election forms, and process participants' elections to diversify their accounts
- Ensuring compliance with numerous regulatory requirements placed on all qualified plans through testing of all plans as required (e.g., plan coverage, top-heavy testing, required minimum distributions, maximum contributions limits)
- Ensuring compliance with Internal Revenue Code requirements peculiar to ESOPs, such as S-corporation [Section 409(p)] testing and tracking allocations to participants related to individuals making stock sales to the ESOP under Section 1042
- Preparing proxy labels as necessary to satisfy voting pass-through requirements
- Preparing government filings, including IRS Form 5500 and Form 1099-R
- Preparing customized individual statements for each participant detailing his/her account activity
- Tracking loan repayments through employer contributions and dividends
- Preparing future cash flow analyses of the repurchase obligation for participants' stock distributions from the ESOP
- Providing plan administration forms, including custom distribution forms, diversification notices, and election forms in compliance with current ESOP rules
- Facilitating the ESOP distribution process for the Trustee or Custodian

Your Team of Specialists

In addition to plan administration, we provide total support to our clients through a wide variety of consulting services.

Your ESOP carries with it many responsibilities — educating employees, keeping your plan in compliance with all laws and regulations, making sure it's competitive, and managing the data. These responsibilities require specialized knowledge, experience, and time. Our team of specialists is ready to join your team to create and maintain a dynamic stock ownership retirement program for your participants.



This document is furnished by Findley to provide general information about the company and its HR, actuarial, and employee benefit consulting services. Findley is a human resource, actuarial, and employee benefit consulting firm which provides actuarial and employee benefit services to clients. Findley does not practice law or accounting and does not provide legal or tax advice. Legal issues concerning your employee benefit plans should be discussed with your legal counsel.