Common ESOP questions

You have questions about Employee Stock Ownership Plans (ESOPs). You're not alone.

Why learn more? Because nearly 13.5 million Americans work for the nearly 10,000 ESOP businesses![1] That's about 11% of all U.S. workers!

Here are some frequently asked questions:

1. **An ESOP is often referred to as a retirement plan and a transition strategy. Which is it?**
   a. It's both. An ESOP is a tax-deferred employee retirement plan, similar to a profit sharing or 401(k) plan. An ESOP can also be used for ownership transition. The business owner can sell all or any part of their company stock to the retirement plan.

2. **Does the owner have to sell all of their business to the ESOP?**
   a. No. An ESOP is a flexible business transition method. It allows a business owner to decide how much of the business to sell and when to transition ownership.

3. **Is a business owner involved post ESOP?**
   a. That depends on the owner. An ESOP doesn't change the company's corporate governance. An ESOP trustee is appointed and votes the shares on behalf of retirement plan participants. The board and management can stay in control of the company, even when the ESOP owns a majority.

4. **Is the company required to disclose detailed financial information to employees?**
   a. Like any qualified retirement plan, ESOP's must provide participants an annual statement. No other financial documents are required but it is up to the company to decide the amount of information they wish to share to engage employees.

5. **How much does it cost to set up an ESOP?**
   a. Since the owner is selling some/or all of their business, ESOP costs are very similar to cost that you would incur selling to an outside party. Keep in mind, no matter how an owner transitions the business, accountants, attorneys and valuation companies are typically hired to ensure fair market value and that the sale is in good order.

6. **Are ESOPs difficult for employees to understand and appreciate?**
   a. Because the majority of the plan's assets are company stock, it may actually be easier to understand an ESOP than other retirement plans. Employees can see their account balance change over time and many ESOPs have communication and education plans for employees.

[1]The National Center for ESOP Ownership http://www.esopinfo.org/infographics/esops-in-the-us.php (January 2016)

7 › **How is the company value determined?**

a. An independent appraiser determines fair market value on privately owned ESOPs. Even though an ESOP can't pay what a strategic buyer might, ESOPs offer a variety of tax benefits that can often times make it a better option. And the owner can share in the upside potential if they retain partial ownership.

8 › **What type of company is a good fit for an ESOP?**

a. Companies of all sizes and industries can benefit from being an ESOP. From a privately owned company with 30 employees to a very large publicly traded company with 175,000 employees, ESOPs can be a good fit for a variety of businesses.

9 › **Do employees need to use part of their pay to purchase or set up stock for an ESOP?**

a. Similar to profit sharing programs, the trust actually purchases the stock with employer contributions, NOT employee money.

10 › **When and how do employees receive benefits from the ESOP?**

a. Employees don't need to enroll or make their own contributions to an ESOP. Once eligible, they are automatically enrolled and an account is set up for their benefit. When participants retire or leave the company, they will receive the vested value of the ESOP account based on the plan's distribution features.

With an ESOP, the owner can achieve liquidity and leave a legacy. Giving them the flexibility to run and exit their business on their own terms. Visit us online **www.principal.com/ESOP** or contact Principal to learn more.

Principal℠

principal.com

PQ11102-03 | 10/2016 | t16110105pu | © 2016 Principal Financial Services, Inc.