RUTGERS–NEW BRUNSWICK
Institute for the Study of Employee Ownership and Profit Sharing
School of Management and Labor Relations

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Employee Ownership
Different models, many benefits

Studies suggest that giving employees a stake in a company's success can translate into **stronger financial performance, enhanced job stability, and wealth-building opportunities for workers.** This guide gives a brief overview of the primary types of employee ownership in the United States.

TYPES OF EMPLOYEE OWNERSHIP

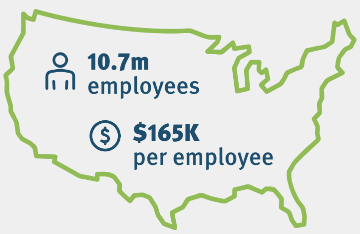
Employee Stock Ownership Plan (ESOP)

The most common form of employee ownership in the United States is the Employee Stock Ownership Plan (ESOP). ESOPs are retirement plans invested in company stock that offer unique tax advantages to selling business owners and to companies. **Think of an ESOP as "employee ownership in the form of a retirement plan."** It provides a way for business owners to sell part, or all, of their company to the employees, all at once or gradually.

How does it work?

ESOPs enable employees to gradually gain ownership in the company without having to pay for the shares directly. **For selling owners of business equity, ESOPs are a way of accessing liquidity.** The ESOP purchases their shares then holds the shares in a trust on employees' behalf. Employees have ESOP accounts, which accumulate shares over time. The longer an employee stays with the company, the more shares they are likely to accumulate. When an employee eventually leaves the company or retires, they sell their shares back and receive a payout for the value of the price of the shares at the time of sale.

FACTS:



6,247 ESOPs in the United States cover **10.7 million** employees with **$2.09 trillion** ESOP assets holding average assets per employee of **$165,000**, according to Rutgers analysis of Department of Labor data

Worker-Owned Cooperatives

A worker cooperative is a democratic worker-owned and governed business where worker owners, also known as cooperative members, govern the company on the basis of "one person, one vote." Worker cooperatives are designed to balance profit-making with worker needs and other values. By design, **they give worker owners mechanisms for a genuine voice in governance and, when the business is profitable, the opportunity to share in profits**.

Worker cooperatives are often smaller companies. The median worker cooperative in the U.S. has 6 to 8 workers. There do exist, however, several large-scale worker cooperatives in the United States, and still larger worker cooperative conglomerates and networks exist internationally.

FACTS:

900–1000 worker cooperatives in the United States cover up to **10,000** workers according to the Democracy at Work Institute and the U.S. Federation of Worker Cooperatives

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Employee Ownership Trust

An Employee Ownership Trust is a business owned by a perpetual purpose trust with a mission to protect the company's purpose and operations and to benefit the employees. **This model is relatively new in the United States but has a longer history in the United Kingdom**. The trust holds the shares collectively on employees' behalf. Trustees, who have a legal obligation to act in the best interests of the employees, oversee the trust. A portion of the company's profits may be shared with the employees. EOTs are designed to be perpetual, meaning the trust continues to hold the company's shares indefinitely, without a defined end date. EOTs are simpler to establish and maintain than ESOPs.

FACTS:

Fewer than **50** EOT companies exist in the United States, but the number is growing rapidly. Far more EOTs exist in the United Kingdom, where tax incentives to encourage business owners to transfer ownership to EOTs were adopted.*

**Other forms of employee ownership include "direct share ownership," where companies distribute shares directly to employees, and various forms of broad-based equity compensation or stock-based pay.*

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