



EMPLOYEE-OWNED S CORPORATIONS OF AMERICA

For Immediate Release

Contact: Stephanie Silverman
Phone: 202-466-8700

New Study Shows S Corporation ESOPs Outperformed Other Companies During the Recent Recession

Washington, DC (March 23, 2010) – A *Georgetown University/McDonough School of Business* study released today found that, in the most recent economic recession, Subchapter S companies owned by their employees through employee stock ownership plans (ESOPs) demonstrated considerable resilience and performed better than other companies in providing for workers' retirement security, job creation, and revenue growth.

Economists Phillip Swagel and Robert Carroll reviewed the performance of a cross-section of S corporation ESOP companies in 2008, and found that the S corporation ESOP ("S-ESOP") structure, created by Congress to promote the retirement savings and other benefits of employee-ownership, has provided considerable benefits not only to workers but also to the national economy. "Our results indicate the resilience of S-ESOP firms during the first year of the recession. S-ESOPs hired and grew their businesses when other firms were shrinking. This is in addition to the desirable feature of the S-ESOP business model that provides considerable resources for employee-owners' retirement security," said Swagel.

Swagel, a visiting professor with Georgetown's McDonough School, was Assistant Secretary of the Treasury for Tax Policy from Dec. 2006 – Jan. 2009; he also served as Chief of Staff at the White House Council of Economic Advisers during the Clinton Administration. Carroll, now an Executive-in-Residence with the American University and co-founder of American University's Center for Public Finance Research, was Deputy Assistant Secretary for Tax Analysis from Nov. 2003 - Jan. 2008, and prior to that was a senior economist at the President's Council of Economic Advisers.

In their study, Swagel and Carroll found that S-ESOPs give their workers a more secure retirement by providing substantial retirement savings for employee-owners, in this case at a time when most other companies did not. Surveyed S-ESOP companies increased contributions to retirement benefits for employees by 18.6%, while other U.S. companies increased their contributions to employee retirement accounts by only 2.8%, or one-sixth that amount.

The study's authors also reported that, while overall U.S. private employment in 2008 fell by 2.8%, employment in surveyed S-ESOP companies rose by nearly 2 percent. Comparisons between S-ESOPs and non-S-ESOPs in the manufacturing sector were even more favorable: surveyed S ESOP manufacturers lost no ground where employment was concerned, while their non-S-ESOP counterparts shed about 6 percent of their jobs. Wages in all S ESOP companies during the period grew by 5.9%, while overall U.S. earnings per worker grew only half that much.

“These results tell us what workers in S corporation ESOP companies already know,” said Mark Lewis, president of Woodfold, Inc., in Forest Grove, Oregon. “When times are tough, employee-owners work smarter and harder because of their commitment and investment in the business and this makes us stronger.” Lewis currently serves as chairman of the board of directors of the Employee-Owned S Corporations of America.

Representatives Ron Kind (D-Wis.) and Earl Blumenauer, co-authors of the *S Corporation Promotion & Expansion Act* (H.R. 3586), applauded the study’s results. “With fewer than half of Americans claiming any form of employer-sponsored retirement savings plan, these S-ESOP companies are providing real retirement security for their workers,” said Rep. Kind. Blumenauer added, “I have seen the power and the pride of employee ownership firsthand in Oregon. It makes sense that employees with a stake in the companies they work for are faring better during the recession. As a member of Congress, I am committed to helping extend this opportunity to more hard-working Americans.” Kind and Blumenauer’s bill, co-sponsored by a bipartisan group of a dozen other House Members, would enable the creation of more employee-ownership in U.S. companies in every sector.

About ESCA:

The Employee-Owned S Corporations of America (“ESCA”) is the Washington, DC voice for employee-owned S corporations. ESCA’s exclusive mission is to preserve and protect S corporation ESOPs and the benefits they provide to the employees who own them. These companies have an important story to tell policymakers about the tremendous success of the S ESOP structure in generating retirement savings for working Americans and their families. ESCA provides the vehicle and the voice for these efforts. ESCA represents employee-owners in every state in the nation.

###