

# Measuring the Impact of Ownership Structure on Resiliency in Crisis

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Results from a study by the National Center for Employee Ownership (NCEO)  
on behalf of Employee-Owned S Corporations of America (ESCA)

December 2021

# Introduction

The pandemic and shutdowns provide an opportunity to examine how businesses dealt with a once-in-a-generation economic shock. Depending on their industry, businesses struggled with weathering the storm or, conversely, with having the capacity to capitalize on new opportunities.

**Given the nature and purpose of ESOPs and the forward-looking company culture that often accompanies them, there is strong reason to believe that having an ESOP in place prior to the worst of the crisis helped businesses not just survive but for many take the best advantage of growth opportunities more so than their conventional counterparts.**

Recent survey findings from [Zogby on behalf of ESCA](#) provided evidence that employee ownership was a strong buffer for workers during the pandemic.

This first-of-its kind project draws on a comprehensive analysis of more than 300,000 plan filings, covering more than 43 million employees. This includes a longitudinal analysis connecting the same plans across the period in December 2019 when the pandemic had not yet begun, to December 2020 while the U.S. economy remained in its grip.

# Summary of Findings

- Overall, we find measurable evidence of this resiliency in **greater financial security for employees heading into and during the pandemic, and job retention at the firm level compared to comparable conventional firms.**
- Before the pandemic, the average ESOP account balance at an S ESOP was more than **double** compared to the average account balance at a comparable conventional firm (\$132k vs. 64k). See slide 9.
- Controlling for company size, industry, and region, the ESOP advantage is an **estimated \$67,000** more assets in the average account balance. See slide 12.
  - This is remarkable given the context that **just over half (50.5) of American families have a retirement account at all.** Among those that do, the median account value was \$65,000 (Survey of Consumer Finances, 2019)

# Summary of Findings

- The average yearly **employer** contribution to the ESOP was **2.6 times** that of companies offering a 401(k) (\$6,567 vs. \$2,507). See slide 13.
- **94%** of total contributions to ESOPs came from the employer, compared to **31%** for 401(k) plans. See slide 14.
- Using active participants as a proxy for employment, and controlling for company size, industry, and region, being an ESOP is associated with retaining or adding an additional **6 employees** from 2019 to 2020, compared to non-ESOP employers. See slide 18.

# Data

Every business with a qualified retirement plan is required to file a form with details about the plan with the federal government.

The data from these filings is objective and covers all businesses instead of just a sample of them.

The data also enables researchers to control for factors such as company industry and size, meaning observed differences between ESOPs and non-ESOPs are not merely outgrowths of ESOPs being more or less prevalent in certain types of companies.

Our data source is the Department of Labor's Form 5500 and Form 5500-SF EFAST filing data, accessed September - November 2021. <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/public-disclosure/foia/form-5500-datasets>

# Measuring Resiliency

- **Workers financial cushion during the pandemic:** Average account balances as of December 2019 and December 2020;
- **Workers financial security:** Amount and percent of retirement contributions that came from the **employer** as of December 2019 and 2020;
- **The ability of firms to survive and thrive during the pandemic and shutdowns:** The change in active plan participants between 2019 and 2020 as a number and a percent. *Active participants* are defined as any individuals who are currently in employment covered by the plan and who are earning or retaining credited service under the plan.

# Measuring Resiliency

- For each of these measures, we compare **all S ESOPs with all comparable 401(k)s during the same time period.**
  - In the multivariate regression analysis, we control for:
    - *Industry (2-digit NAICS)*
    - *Geography (Census division)*
    - *Size (number of active participants in largest 2019 401(k) plan)*

# Methodology

Plans included in the analysis:

- Calendar-year filings (to keep time window constant)
- Privately held, for-profit U.S. employers
  - Excludes plans that do not identify as S corporation ESOPs and are presumably C corporations.
- At least 10 up to 25,000 active participants.
- Largest plan in terms of active participants, if company has multiple plans

	<b>S ESOPs*</b>	<b>Comparison 401k plans</b>	<b>Total Participants</b>
Filings for plan year ending December 2019	2,861	307,413	44,201,165
Filings for same plan for 2020*	2,513	265,223	41,229,512

\*As of November 2021

# Retirement Assets Heading Into the Pandemic

The average account balance at an S ESOP was dramatically higher compared to non-ESOP companies with a 401(k) plan.

Of course, there are many factors that go into explaining the variation in average account balances, particularly at the worker level. **Still, the data show a substantial additional financial cushion available to S ESOP employees heading into 2020.**

2019	
Average ESOP account balance	\$132,362
Average 401(k) account balance	\$63,925

\*Average assets are calculated by dividing total plan assets by the total number of participants covered by the plan.

# Retirement Assets Heading Into the Pandemic

Across the board, workers at ESOPs were in a better position on average compared to those at traditional companies.

	<b>Average per participant assets in S ESOPs</b>	<b>Average per participant assets in comparable 401ks</b>	<b>Percent difference</b>
Mean	\$132,362	\$63,918	69.7%
10 <sup>th</sup> percentile	\$9,776	\$4,268	78.4%
25 <sup>th</sup> percentile	\$28,037	\$13,958	67.1%
50 <sup>th</sup> percentile	\$71,449	\$36,853	63.9%
75 <sup>th</sup> percentile	\$151,064	\$80,370	61.1%
90 <sup>th</sup> percentile	\$296,563	\$150,221	65.5%
<b>Number of plans (N)</b>	<b>2,861</b>	<b>307,413</b>	

\*Average assets are calculated by dividing total plan assets by the total number of participants covered by each plan.

## Additional retirement assets for ESOP participants

Nearly 80% of S corporation ESOPs also offer a 401(k) plan, either separate from or combined with the ESOP. The data do not allow for summing each individual account to ascertain with accuracy the *total* retirement account balance for ESOP participants with an additional plan.

	Average per participant assets in separate 401k
Mean	\$75,246
10 <sup>th</sup> percentile	\$16,897
25 <sup>th</sup> percentile	\$32,768
50 <sup>th</sup> percentile	\$58,951
75 <sup>th</sup> percentile	\$99,764
90 <sup>th</sup> percentile	\$150,606
<b>Number of plans (N)</b>	<b>1,938</b>

\*Average assets are calculated by dividing total plan assets by the total number of participants covered by each plan.

## The ESOP advantage in retirement assets is not merely a function of ESOPs being more or less prevalent in certain types of companies.

Multivariate regression analysis controlling simultaneously for industry, geography, and size shows that being an ESOP is associated with **\$67,616** ( $p = .00$ ) more in retirement assets on average compared to a comparable traditional business.

# Employer Contributions in 2019

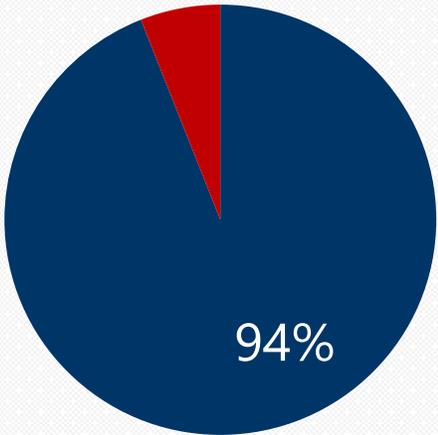
An important piece of the discussion of worker financial security is the challenge of being able to save at all. Here is we see that on average ESOP **employers** are contributing 2.6 times more than comparable conventional businesses.

2019	
Average employer contributions to ESOP per participant	\$6,567 (n=2,861)
Average employer contribution to 401(k) per participant	\$2,507 (n=286,899)

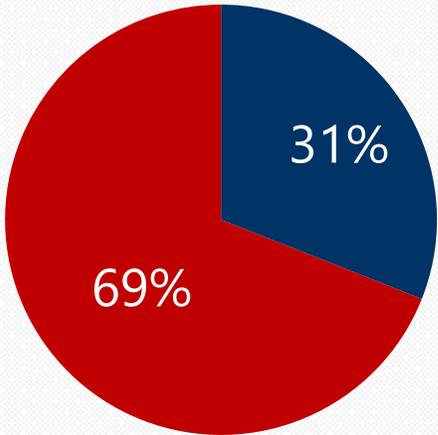
# Percentage of total contributions

The charts below illustrate the stark difference in how ESOPs can help workers build wealth.

ESOPs



Non-ESOP 401(k)s



From employer

From participant

# Employer Contributions in 2020

Looking at average employer contributions again at the end of 2020, among those plans that have filed, we continue to see the advantage of S ESOPs for workers during a rough economic period. It is also indirect evidence of the likely advantage this conveys in terms of ESOP firms being able to retain employees during this time.

2020	
Average employer contributions to ESOP per participant	\$7786 (n=2,513)
Average employer contribution to 401(k) per participant	\$2808 (n=265,223)

# Employment Changes

Clearly, the period from 2019 to 2020 was tumultuous for all types of firms.

	<b>Net change in active plan participants from December 2019 to December 2020</b>	
	S ESOPs	401(k)s
Mean	-3.6	-4.6
10 <sup>th</sup> percentile	-18	-5
25 <sup>th</sup> percentile	-4	-4
50 <sup>th</sup> percentile	0	0
75 <sup>th</sup> percentile	6	3
90 <sup>th</sup> percentile	20	9
<b>Number of plans (N)</b>	<b>2,801</b>	<b>294,111</b>

# Employment Changes

Looking at the same data in terms of the percent change shows a somewhat similar pattern between the two groups overall.

	Net percent change in active plan participants from December 2019 to December 2020	
	S ESOPs	401(k)s
Mean	-.01	-.02
10 <sup>th</sup> percentile	-.17	-.27
25 <sup>th</sup> percentile	-.06	-.11
50 <sup>th</sup> percentile	.00	.00
75 <sup>th</sup> percentile	.08	.09
90 <sup>th</sup> percentile	.17	.22
<b>Number of plans (N)</b>	<b>2,801</b>	<b>294,111</b>

## Being an ESOP is associated with a measurable resiliency.

Multivariate regression analysis controlling simultaneously for industry, geography, and size shows the coefficient for being an ESOP is 6.1 (p=.03) compared to a comparable traditional business. This translates into ESOPs retaining or adding 6 participants on average to their plan.

Of course, active participants is not a perfect proxy for employment and our modeling cannot include performance measures like revenue.

Separate analysis shows that changes in active participants from 2019-2020 for each industry do correlate fairly closely with changes in total employment for that industry from BLS data ( $r^2 = 0.65$ ).